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Province of British Columbia

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2001/02 Report 4: Monitoring the Government's Finances.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
January 2002

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

table of contents

Auditor General's Comments 1
A Framework of Financial Information 1
Key Measures and Indicators 3
Comparing British Columbia to Other Provinces 7

Trends in Financial Measures and Economic Indicators 11
Revenue Trends 11
Expense Trends 15
Asset Trends 17
Liability Trends 20
Indicators of Financial Condition 22
Economic Trends 28

Detailed Financial Information Framework, 1997 to 2001 32

Response of the Ministry of Finance 34

Glossary 41

Appendices
A 2000/01 Summary Financial Statements 45
B Office of the Auditor General: 2001/02 Reports Issued to Date 99

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auditor general's comments

auditor general's comments

A framework of financial information

As the Auditor General, I am often asked questions about the state of the government's finances. Both the citizens of British Columbia and their elected representatives want to know whether their government's finances are getting stronger or weaker, which revenues or expenses are increasing or decreasing, and how the province compares in these respects to other jurisdictions.

Recently, legislators directed the government to use generally accepted accounting principles to prepare its annual summary financial statements. The government has indicated it will do so no later than April 2004. By that date I expect the government's reporting entity to include British Columbia's schools, universities, colleges and hospitals (the SUCH sector). Until this happens the government's summary financial statements are incomplete. Even when they are complete, these statements alone will not provide all of the information required for monitoring the government's finances. Within these statements, however, there are various schedules, notes and supplementary information that when adjusted, reconciled and then put together can provide a complete and understandable picture of the government's finances.

In this report, I do just that. Using the information provided by the government, I have developed a framework of financial information that can be used to monitor the government's finances. The framework, which includes the SUCH sector, covers the five years ending March 31, 2001. I have not put together information for the years prior to 1997 because some necessary information is unavailable. Exhibit 1.1 summarizes this financial framework; it is presented in more detail on pages 32 and 33.

As the government adopts generally accepted accounting principles for its financial planning and reporting, I ask it to consider the framework set out in this report for its own use in informing legislators and all of the province's citizens on the state of the government's finances.

Exhibit 1.1

Financial Information Framework, 1997 to 2001

This financial information framework is built around the activities of the government's general programs and enterprises

Revenue and Expense
For the Year Ended March 31
(Amounts in $ Millions)

	1997	1998	1999	2000	2001
General programs					
Revenue	23,165	23,596	23,564	25,181	27,988
Expense	24,477	25,557	26,029	26,447	28,117
	(1,312)	(1,961)	(2,465)	(1,266)	(129)
Enterprises					
Revenue	7,884	8,284	9,434	10,380	14,496
Expense	6,809	6,958	7,914	9,085	12,771
	1,075	1,326	1,520	1,295	1,725
Annual surplus/(deficit)	**(237)**	**(635)**	**(945)**	**29**	**1,596**

Assets and Liabilities
As At March 31
(Amounts in $ Millions)

	1997	1998	1999	2000	2001
General programs					
Financial assets	6,419	7,205	7,419	9,580	9,550
Liabilities	28,651	29,737	30,983	33,801	33,701
	(22,232)	(22,532)	(23,564)	(24,221)	(24,151)
Enterprises					
Assets	17,760	18,439	19,299	18,814	19,387
Liabilities	14,819	15,677	16,414	16,069	16,386
	2,941	2,762	2,885	2,745	3,001
Net liabilities	**(19,291)**	**(19,770)**	**(20,679)**	**(21,476)**	**(21,150)**
General infrastructure assets	18,248	18,236	18,415	19,241	20,511
Accumulated deficit	**(1,043)**	**(1,534)**	**(2,264)**	**(2,235)**	**(639)**
Gross domestic product	**109,049**	**114,601**	**115,604**	**120,608**	**127,564**

Source: Summary Financial Statements of the Government of the Province of British Columbia, including notes, schedules and supplementary information; Statistics Canada for GDP

Recommendation

That the government implement generally accepted accounting principles as soon as possible.

Key measures and indicators

In 1997, the Canadian Institute of Chartered Accountants identified several financial and economic measures and indicators that it said should be used to monitor the state of a government's finances. It expressed these measures and indicators in terms of three concepts: sustainability, flexibility and vulnerability.

Sustainability—the ability of a government to meet its existing program commitments and creditor requirements without increasing its net liabilities.

Flexibility—the degree to which a government can increase financial resources to respond to rising commitments either by expanding its revenues or by increasing its net liabilities.

Vulnerability—the degree to which a government becomes dependent on, and thus vulnerable to, sources of funding outside of its control or influence.

Three measures provide particularly useful insight into a government's finances. Those measures are a government's annual surplus or deficit, its net liabilities, and the province's gross domestic product.

The annual surplus or deficit shows the extent to which the costs incurred by a government are more or less than what it raises in revenues in one fiscal year.

Net liabilities is the difference between a government's total liabilities and its financial assets. Net liabilities is the amount current and past generations of British Columbia citizens are leaving to future generations of citizens to pay or finance.

A province's gross domestic product (GDP) is a measure of the total value of all the goods and services produced in the province in one year. The GDP represents the size of the provincial economy. A government manages its revenue-raising and spending practices in the context of the provincial economy.

During three of the past five years, the annual costs of government were more than its revenues—see Exhibit 1.2.

During the past five years, the government's net liabilities increased $1.8 billion, from $19.3 billion to $21.1 billion (up 9.3%). Accordingly, the amount future generations of British Columbia citizens are being asked to pay or finance has increased—see Exhibit 1.3.

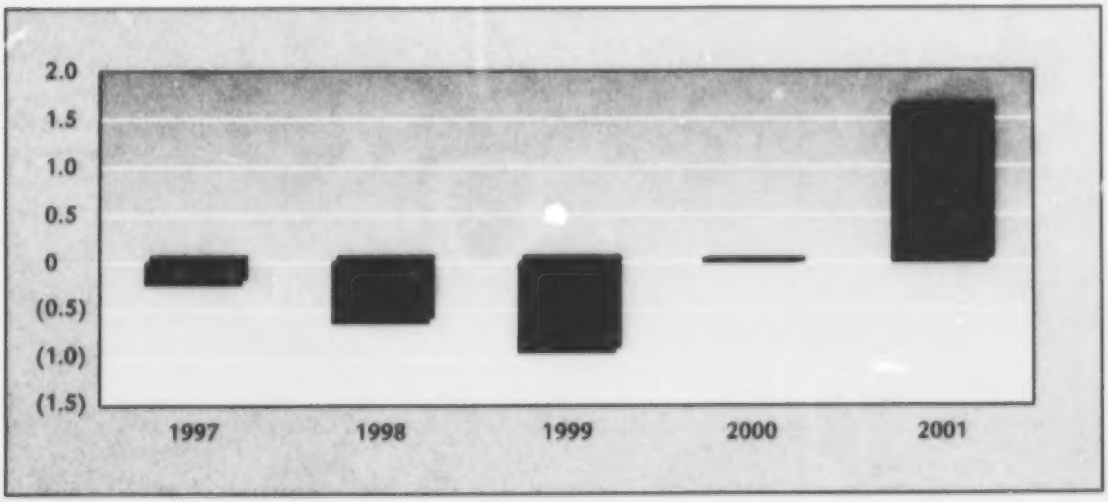
In the same five-year period, the province's GDP increased $18.6 billion, from $109.0 billion to $127.6 billion (up 17.1%)—see Exhibit 1.4.

The ratio of a government's net liabilities to a province's GDP provides a key indicator of the sustainability of government's finances. This indicator shows the extent to which the province's economy will need to support a government's past revenue raising and spending practices.

Exhibit 1.2

Annual Surplus/(Deficit), 1997 to 2001

The annual surplus/(deficit) ($ Billions)

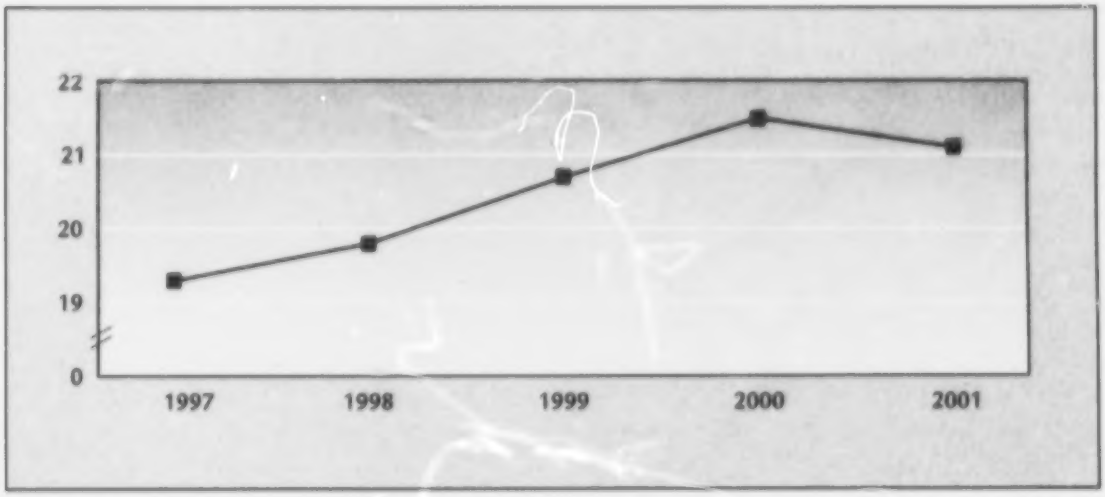


Source: Office of the Auditor General of British Columbia

Exhibit 1.3

Net Liabilities, 1997 to 2001

Net liabilities represents the financial burden that current and past citizens transfer to the future taxpayer ($ Billions)

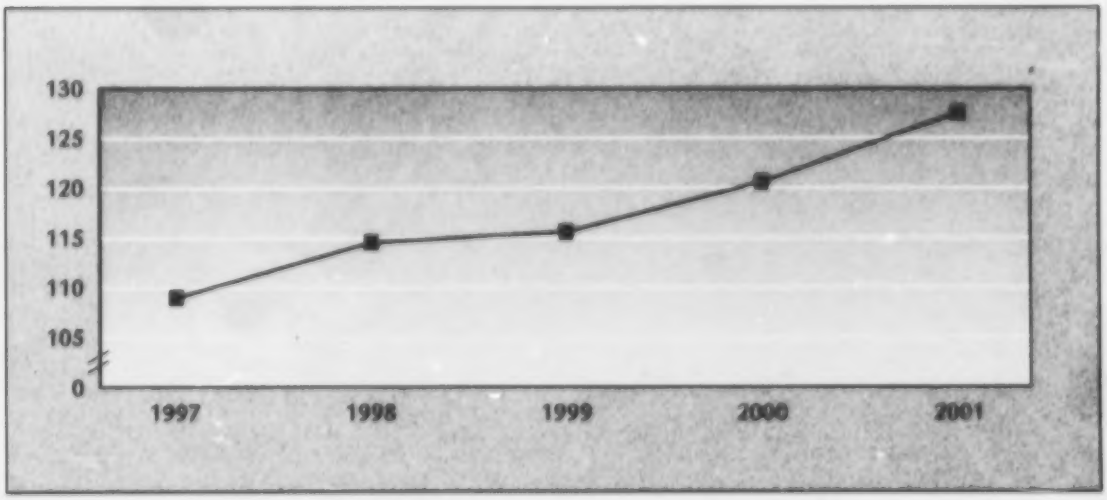


Source: Office of the Auditor General of British Columbia

Exhibit 1.4

British Columbia's Gross Domestic Product (GDP), 1997 to 2001

The GDP represents the size of the provincial economy ($ Billions)



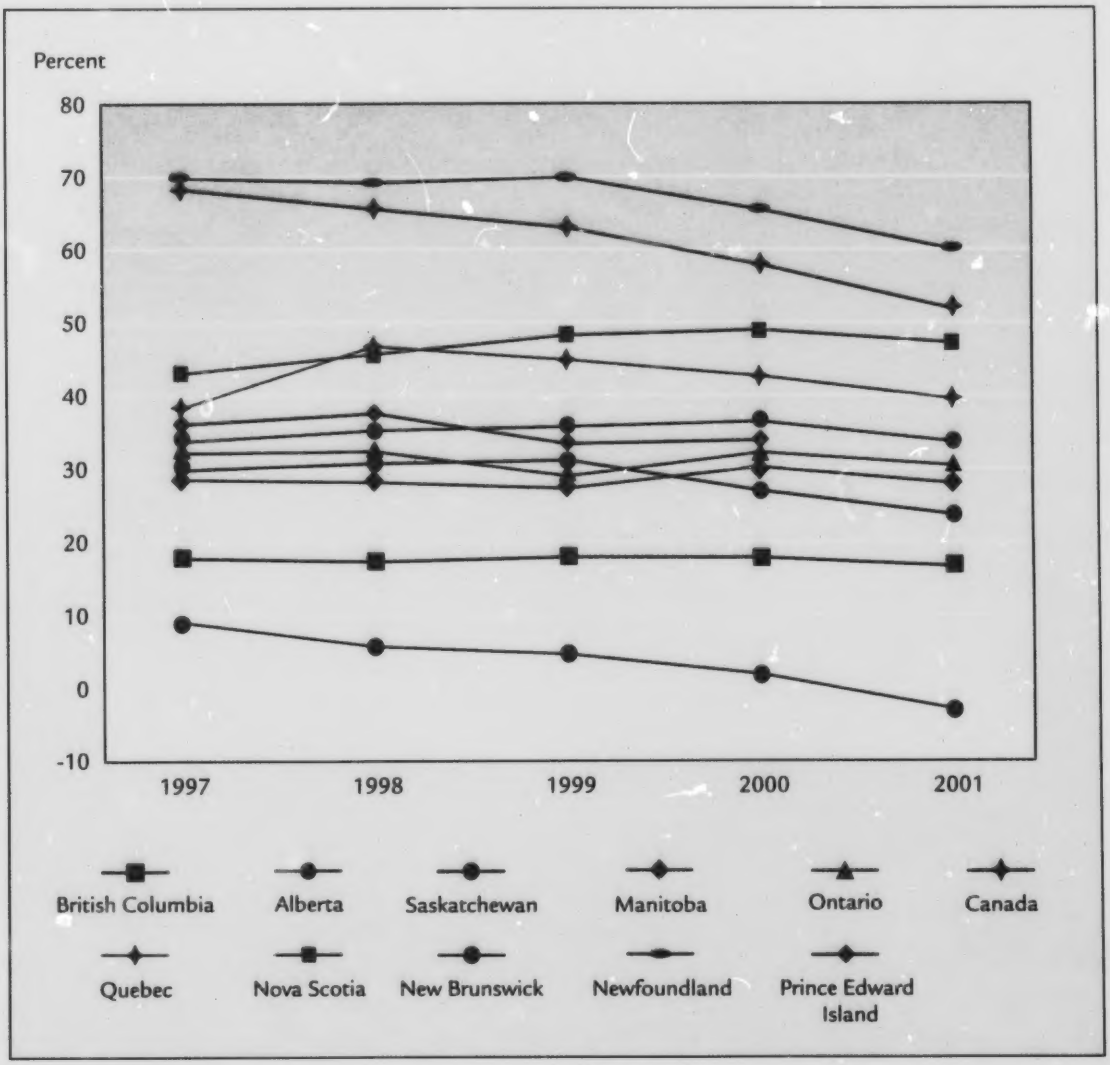
Source: Statistics Canada

During the past five years, the government's net liabilities to the province's GDP has decreased slightly, from 17.7% to 16.6%. This tells us that the province's economy has grown more than the government's net liabilities.

Exhibit 1.5

Net Liabilities to Gross Domestic Product (GDP) for Canada and the Provinces, 1997 to 2001

The extent to which the economy is able to sustain the demands placed on it by the government



Source: Office of the Auditor General of British Columbia

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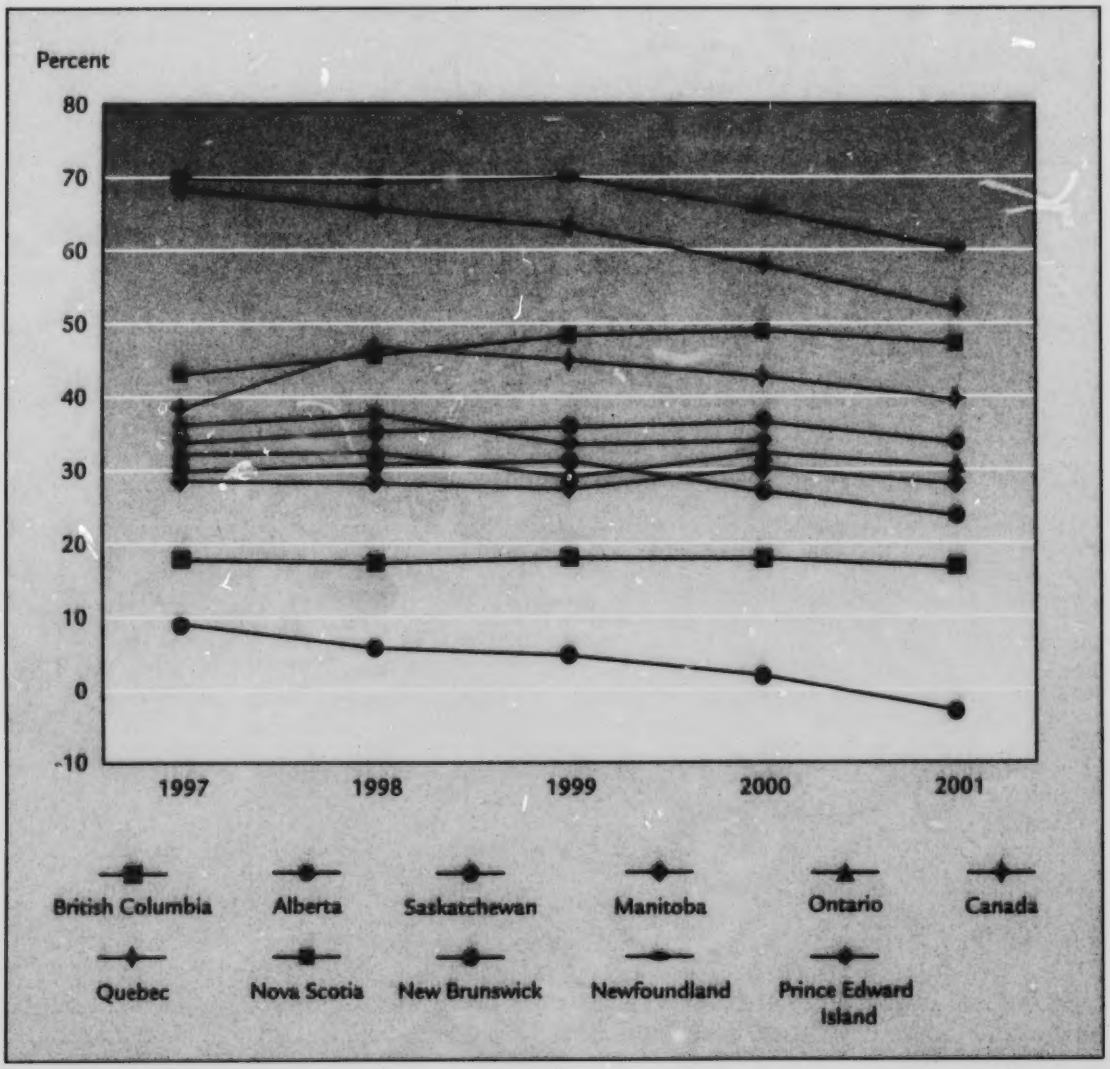


Source: Office of the Auditor General of British Columbia

Comparing British Columbia to Other Provinces

People also ask me how the state of finances of British Columbia compares to other provinces. Interprovincial comparisons are difficult because government financial reporting practices are still not consistent.

However, most governments do report their net liabilities and their province's gross domestic product. Some governments refer to net liabilities as their net debt or accumulated deficit.

Exhibit 1.5 shows the net liabilities to GDP ratio for Canada and the provinces. Among Canada and the provinces, the Province of British Columbia's economy as represented by its GDP is the second most able to support its government's past revenue-raising and spending practices.

In the future, I plan to continue reporting on the state of the government's finances. Intergovernmental comparisons of other important indicators should become more readily available as government financial reporting practices continue to strengthen.

In the next section of the report, I set out trends in important financial and economic measures and indicators for the government of the Province of British Columbia. The financial measures are based on the financial information framework set out in Exhibit 1.1.

Recommendation

That the government use the indicators of financial condition identified by the Canadian Institute of Chartered Accountants, and other important financial and economic measures, to inform the legislators and citizens of British Columbia of the state of the government's finances.

This report sets out the revenues, expenses, assets and liabilities of the government in more detail on pages 32 and 33. Appendix A contains a copy of the government's summary financial statements for the year ended March 31, 2001.

trends in financial measures and economic indicators

trends in financial measures and economic indicators

The summary financial statements are the public's main source for information on the province's finances. However, these financial statements are currently incomplete because they do not include schools, universities, colleges and hospitals (the SUCH sector). In addition, the balance sheet and statement of operations do not include details of all the assets, liabilities, revenues and expenses of government's enterprises.

To understand the state of the government's finances, I found it helpful to first establish a basic framework that provides complete financial information on all aspects of the government's operations. I structured this financial framework around government's general programs and its enterprises, and summarized in it for the past five years the revenues, expenses, assets and liabilities of every organization that makes up the government reporting entity. This framework's reporting entity includes the SUCH sector. The result is a five-year compilation of complete financial information that is prepared on a comparable basis. This framework of financial information is shown in more detail on pages 32 and 33. For my purposes here, I have used information from this financial framework in charting the trends of government's key financial measures and indicators.

The government's enterprises include all business-type entities that operate profitably and that generate substantially all their revenues from sources outside the government. In the 2000/01 fiscal year, the combined revenues, expenses, assets and liabilities of government enterprises amounted to $14.5 billion, $12.8 billion, $19.4 billion and $16.4 billion, respectively.

All other activities of the government are in general programs.

Revenue Trends

Exhibit 2.1 shows the government's revenue sources from general programs and enterprises. The government's total annual revenue has risen from $31.1 billion to $42.5 billion in the past five years, an increase of 37%. Of that $11.4 billion increase in revenue, $0.9 billion was from taxes. Revenue earned by enterprises accounted for $6.6 billion of that increase.

Exhibit 2.1

Government Revenue, 1997 to 2001

Government revenue by main source ($ Billions)

	1997	1998	1999	2000	2001
General programs					
Taxation	13.5	13.5	13.6	13.8	14.4
Natural resources	2.7	2.7	2.0	2.8	4.2
Federal transfer	2.2	2.1	2.4	2.9	3.0
Other	4.8	5.3	5.6	5.7	6.4
	23.2	23.6	23.6	25.2	28.0
Enterprises	7.9	8.3	9.4	10.4	14.5
Total revenue	**31.1**	**31.9**	**33.0**	**35.6**	**42.5**

Source: Office of the Auditor General of British Columbia

Exhibit 2.1 shows the total revenue of the province earned from taxation, natural resources, the operations of commercial enterprises, federal transfers and other sources. Per capita revenue for each of those sources are shown in Exhibit 2.2. Taxes and revenue generated from businesses operated by enterprises were the two most significant sources of revenue for the government of British Columbia in 2001, each contributing about one-third of the total revenue.

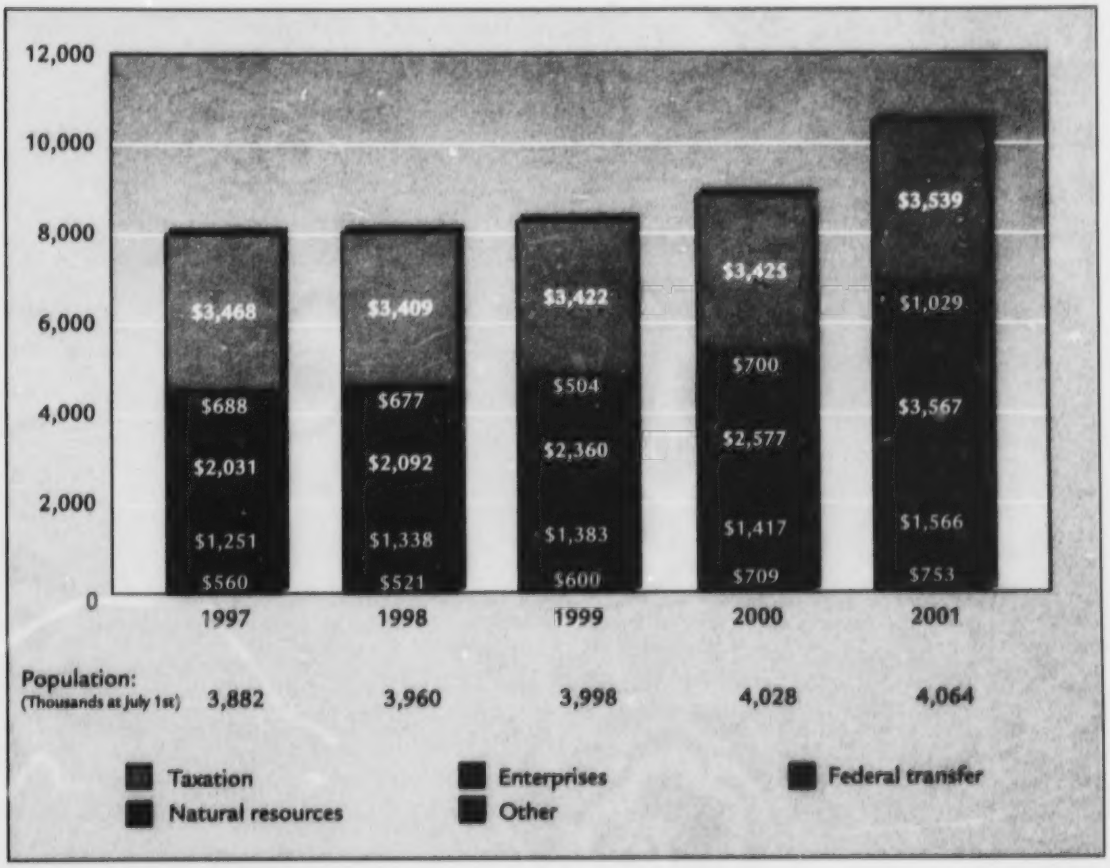
Over the last five years, taxation revenue increased by 7%, from $13.5 billion in 1997 to $14.4 billion in 2001, while revenue earned by the commercial enterprises increased by 84%, from $7.9 billion in 1997 to $14.5 billion in 2001.

The government collects taxes from many sources, the most important being those relating to personal and corporate income, property and sales. Average taxation revenue generated by each resident of British Columbia increased from $3,468 in 1997 to $3,539 in 2001. Compared with all other taxes, personal taxes were the most significant source, having accounted annually in the five-year period, 1997–2001, for between 39 and 42% of the total taxes collected. As a result of the personal tax reductions announced by the new government on June 6, 2001, personal tax revenue in 2002 is forecast to decline by about $1.1 billion, or 18% of the amount recorded in 2001. Expressed in other terms, this means that the average personal taxation revenue generated by each resident of British Columbia will be lowered by approximately $250 in 2002.

Exhibit 2.2

Per Capita Revenue, 1997 to 2001

Per capita revenue by main source over the past five years



Source: Office of the Auditor General of British Columbia; Statistics Canada

Besides taxes, the government's other main source of revenue comes from businesses operated by its commercial enterprises such as British Columbia Hydro and Power Authority (BC Hydro), the Insurance Corporation of British Columbia, the British Columbia Liquor Distribution Branch, and the British Columbia Lottery Corporation. Together these enterprises generated $14.5 billion of revenue for the Province in 2001—a significant increase of 84% since 1997 and a 40% increase over the $10.4 billion recorded in 2000. The increase was largely due to higher electricity trade with customers outside the province through BC Hydro, and to higher market prices for energy.

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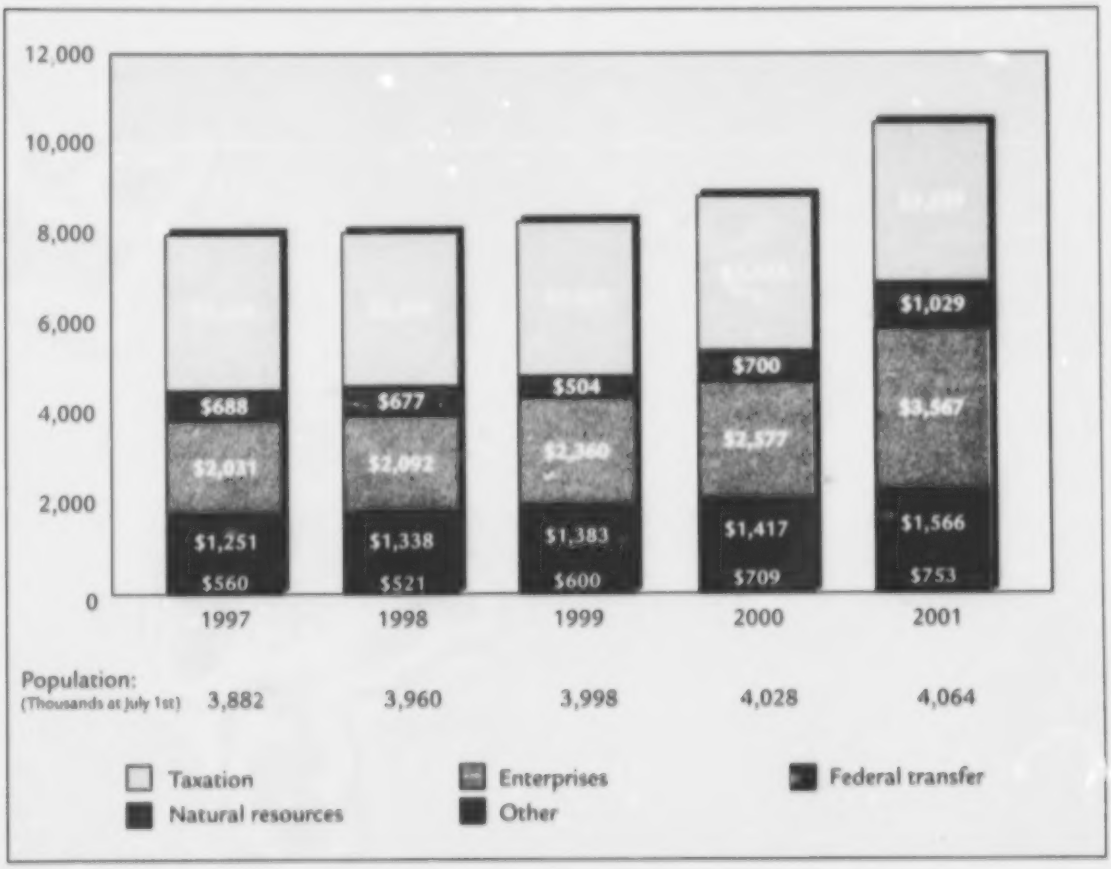

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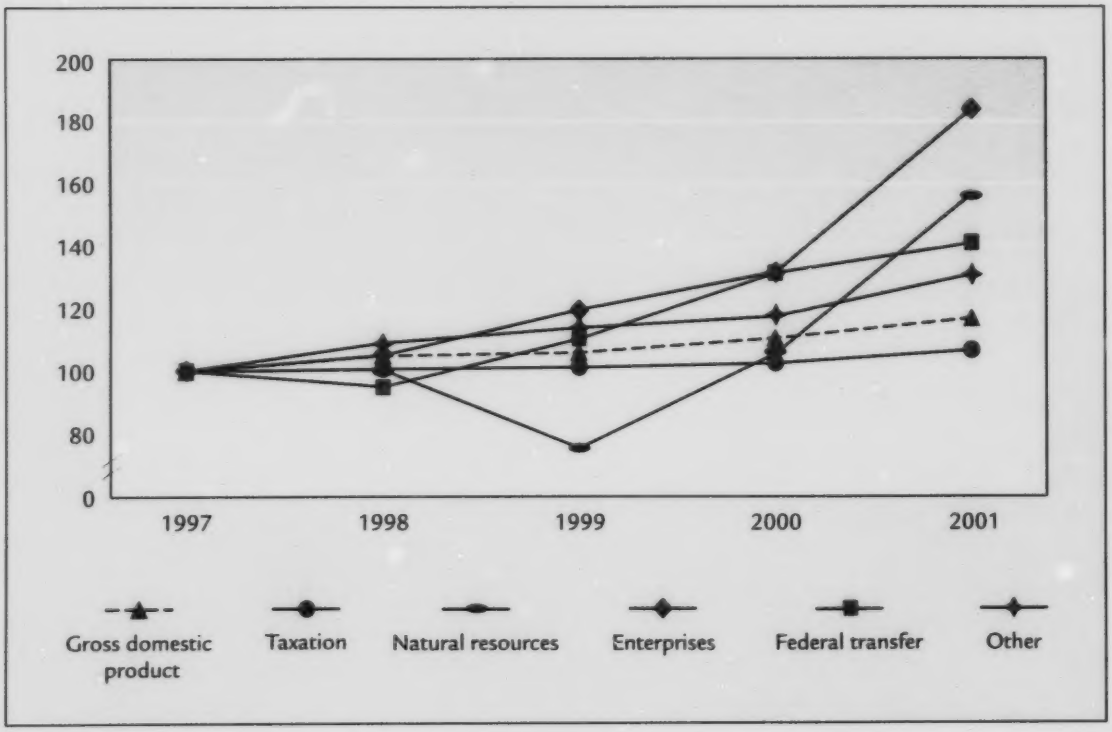
Exhibit 2.3 shows the rate of change in revenue over the last five years by the main sources. The base year in this exhibit is 1997. Revenue for each main source in the four years that follow has been shown as a percentage of that for 1997.

Generally, the rate of change in revenue for most revenue sources shows a gradual increase, as does the GDP's. The exceptions are natural resource revenue and revenue generated from businesses operated by commercial enterprises. Natural resource revenue declined sharply in 1999 because of stumpage rate reductions in the forest industry. It then increased significantly in 2000 and 2001 because of higher oil and natural gas prices that resulted in higher royalty sales of Crown land drilling rights in those years. Also, because of the higher energy prices, revenue generated by BC Hydro increased significantly in 2001 over the previous year.

Exhibit 2.3

Change in Revenue, 1997 to 2001

Rate of change in revenue by main source, compared to the Gross Domestic Product (GDP) (1997 = 100)



Source: Office of the Auditor General of British Columbia; Statistics Canada

Expense Trends

Exhibit 2.4 shows the annual expenses incurred by government, for general programs and enterprises, from 1997 to 2001.

Total government expenses increased from $31.3 billion in 1997 to $40.9 billion in 2001, an increase of 31%. In the 2000/2001 fiscal year, health, education and social services accounted in total for 50% of the total expense of the Province.

The largest increase in expense over the five-year period occurred in government enterprises from $6.8 billion in 1997 to $12.8 billion in 2001, a $6.0 billion or 88% jump. The increase in 2001 alone from the previous year was 41%, an amount largely attributable to BC Hydro's operations. The cost of electricity purchased by BC Hydro for resale made up a significant part of this increased expense in the government's commercial enterprises. BC Hydro's costs to purchase energy in the electricity trade market have substantially risen over the last year as electricity and gas prices have risen. BC Hydro also had to increase the volume of its purchases to meet increases in demand.

Exhibit 2.4

Government Expense, 1997 to 2001

Government expense by main component ($ Billions)

	1997	1998	1999	2000	2001
General programs					
Health	7.5	7.8	8.1	8.8	9.4
Education	6.5	6.5	6.9	7.2	7.7
Social services	3.1	3.2	3.2	3.1	3.3
Other*	3.9	4.6	4.6	4.3	4.6
General government, debt servicing	3.5	3.5	3.2	3.0	3.1
	24.5	25.6	26.0	26.4	28.1
Enterprises	6.8	6.9	7.9	9.1	12.8
Total expense	**31.3**	**32.5**	**33.9**	**35.5**	**40.9**

*In this table transportation, protection and economic development functions are grouped as "other."

Source: Office of the Auditor General of British Columbia

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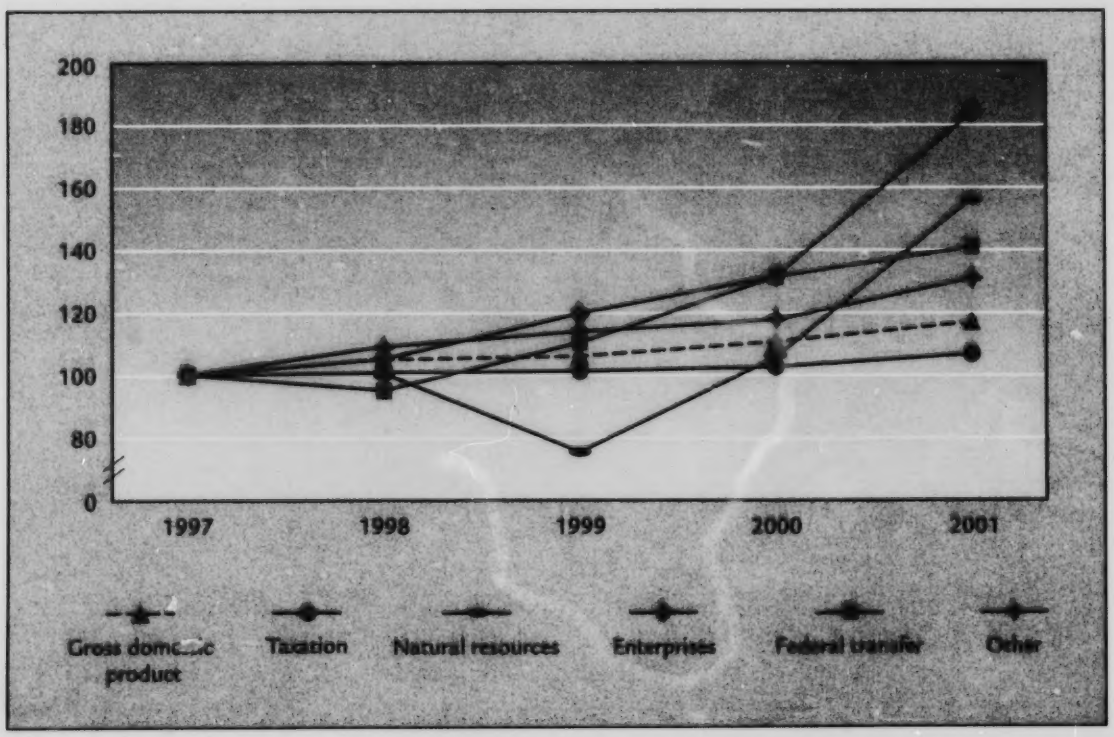

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Source: Office of the Auditor General of British Columbia

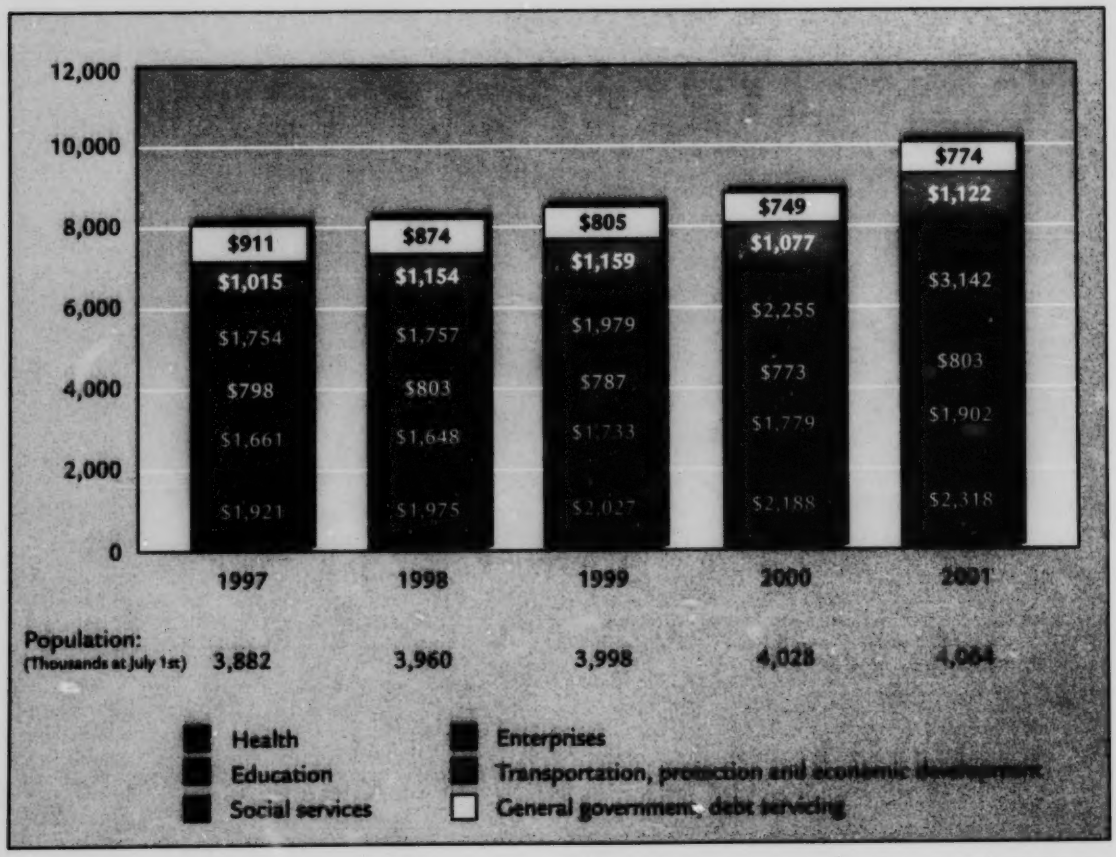
Exhibit 2.5 shows the government's per capita expense for the last five years, by expense category.

Exhibit 2.6 shows the rate of change in per capita expenses over the last five years for health, education, social services, and enterprises. To show the change over the past five years, the per capita expense in each category has been indexed to that expense in the year 1997. The expense is in actual dollars and has not been adjusted for inflation. However, the British Columbia Consumer Price Index (CPI) is plotted to show the general increase in prices in the province, also indexed to 1997, for comparison.

Exhibit 2.5

Per Capita Expense, 1997 to 2001

Per capita expense by main component over the past five years



Source: Office of the Auditor General of British Columbia; Statistics Canada

The exhibit shows that while health and education spending generally grew at an increasing rate between 1997 and 2000, social services spending declined for the same period. Health and education spending continued to rise in 2001, as did social services spending, the latter at a rate close to the rate of increase in the CPI for that year.

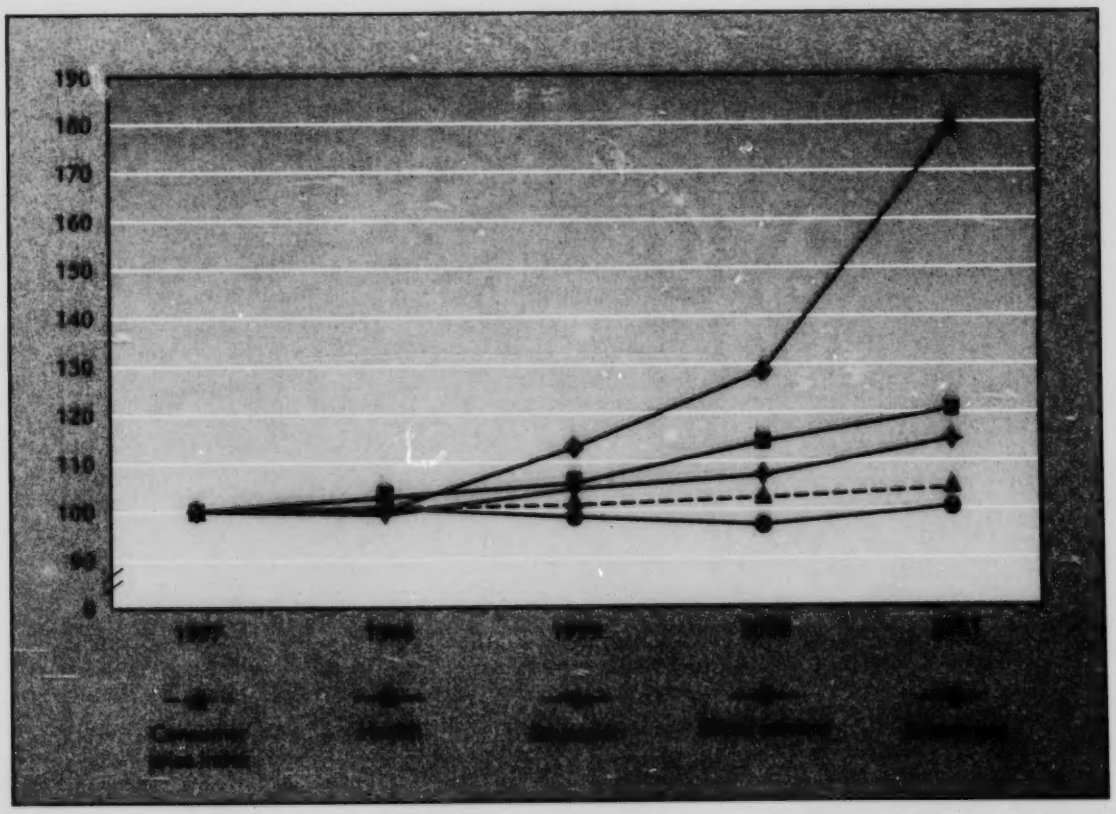
Asset Trends

Government assets are grouped according to their use and are considered to be either financial or physical. Financial assets are cash, investments, loans and other types of receivables. They also include inventories and amounts due from other governments. Physical capital assets are the tangible assets that the government has paid for or traded assets for. These assets are recorded in the government's financial statements at their

Exhibit 2.6

Change in Per Capita Expense, 1997 to 2001

Rate of change in per capita expense for health, education, social services, and enterprises compared to the Consumer Price Index (1997 = 100)



Source: Office of the Auditor General of British Columbia; Statistics Canada

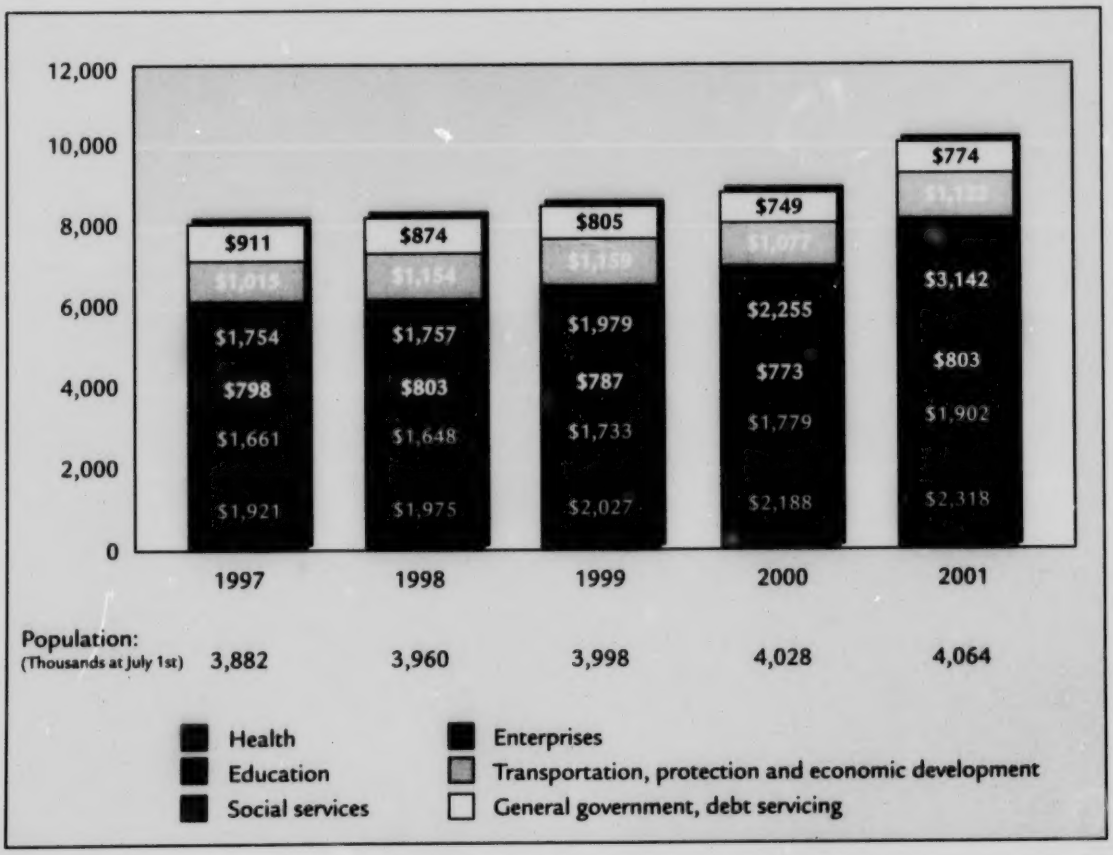
Exhibit 2.5 shows the government's per capita expense for the last five years, by expense category.

Exhibit 2.6 shows the rate of change in per capita expenses over the last five years for health, education, social services, and enterprises. To show the change over the past five years, the per capita expense in each category has been indexed to that expense in the year 1997. The expense is in actual dollars and has not been adjusted for inflation. However, the British Columbia Consumer Price Index (CPI) is plotted to show the general increase in prices in the province, also indexed to 1997, for comparison.

Exhibit 2.5

Per Capita Expense, 1997 to 2001

Per capita expense by main component over the past five years



Source: Office of the Auditor General of British Columbia; Statistics Canada

The exhibit shows that while health and education spending generally grew at an increasing rate between 1997 and 2000, social services spending declined for the same period. Health and education spending continued to rise in 2001, as did social services spending, the latter at a rate close to the rate of increase in the CPI for that year.

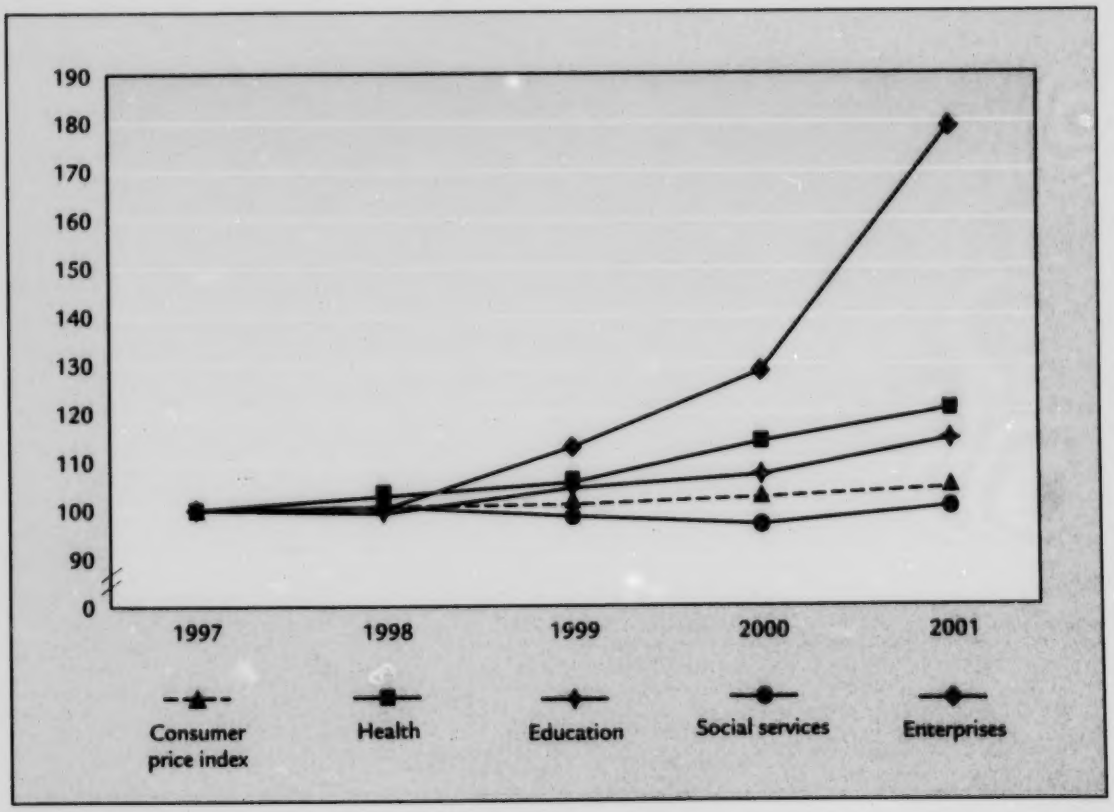
Asset Trends

Government assets are grouped according to their use and are considered to be either financial or physical. Financial assets are cash, investments, loans and other types of receivables. They also include inventories and amounts due from other governments. Physical capital assets are the tangible assets that the government has paid for or traded assets for. These assets are recorded in the government's financial statements at their

Exhibit 2.6

Change in Per Capita Expense, 1997 to 2001

Rate of change in per capita expense for health, education, social services, and enterprises compared to the Consumer Price Index (1997 = 100)



Source: Office of the Auditor General of British Columbia; Statistics Canada

net book value (cost less depreciation). They exclude Crown land, forests and other natural resources that belong to the Crown.

Assets are also characterized as "revenue-generating" or "infrastructure." All assets of enterprises—financial and capital—are revenue-generating assets. Physical capital assets used in the government's general programs do not generate direct revenue. They are the infrastructure needed to serve the public. Those used in government enterprises, however—such as railways, trains, hydro-electric dams, and transmission lines—do generate revenue. The distinction between revenue-generating capital assets and infrastructure assets is important because generally a government does not pay off its debt by selling the infrastructure needed to serve citizens.

Exhibit 2.7 presents an overview of the two categories of government assets. It also shows the value of all capital assets owned by the government.

From 1997 to 2001, total assets of government increased from $42.4 billion to $49.5 billion, a growth of 16.7%. Increases in capital assets accounted for approximately 30% of this change.

Because of British Columbia's size and geography, the need for capital infrastructure within the province is substantial. In the last five years, the net book value of infrastructure assets of the government (such as hospitals, other health care facilities, schools, post-secondary institutions, roads, ferries, buses and rapid transit) has increased from $18.2 billion to $20.5 billion, a 12.6% increase.

In the same five-year period, the value of revenue-generating capital assets of the government enterprises (such as those used in power generation, transmission and distribution) increased by 9.0% from $17.8 billion to $19.4 billion.

The total value of physical capital assets owned by the government, used in both its commercial activities and general programs, has increased from $29.2 billion to $31.3 billion, or 7.2%.

Exhibit 2.8 shows the percentage change in the net book value of health, education, transportation and energy capital assets from 1997 to 2001. Capital spending increased each year, except 1998, to maintain and replace assets and to meet the needs of the province's expanding population. In 1998, the government slowed capital spending—in particular that on transportation—to examine its capital investment policy and to look for alternative ways to meet the province's infrastructure needs.

Exhibit 2.7

Assets, 1997 to 2001

Financial, revenue-generating, infrastructure and total capital assets of the government ($ Billions)

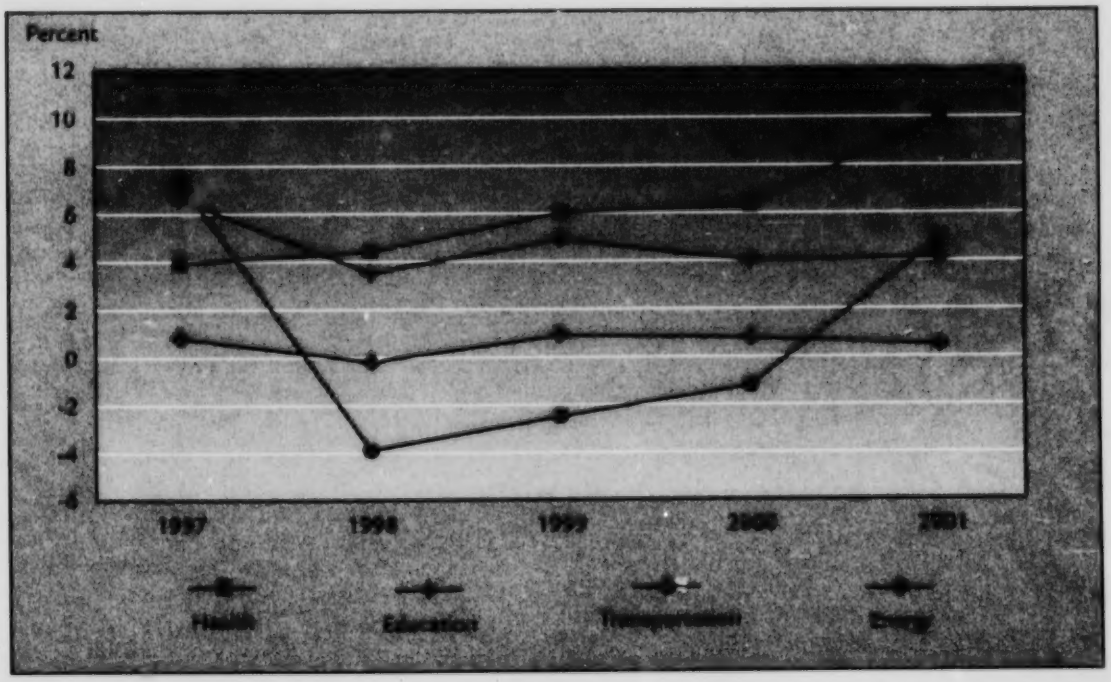
	1997	1998	1999	2000	2001
General programs					
Financial assets	6.4	7.2	7.4	9.6	9.6
Enterprises					
Revenue-generating assets	17.8	18.5	19.3	18.8	19.4
	24.2	25.7	26.7	28.4	29.0
Infrastructure assets	18.2	18.2	18.4	19.2	20.5
	42.4	43.9	45.1	47.6	49.5
Total physical capital assets	29.2	29.3	29.7	30.1	31.3

Source: Office of the Auditor General of British Columbia

Exhibit 2.8

Change in Physical Capital Assets, 1997 to 2001

Annual percentage change in the net book value of capital assets for health, education, transportation and energy



Source: Office of the Auditor General of British Columbia

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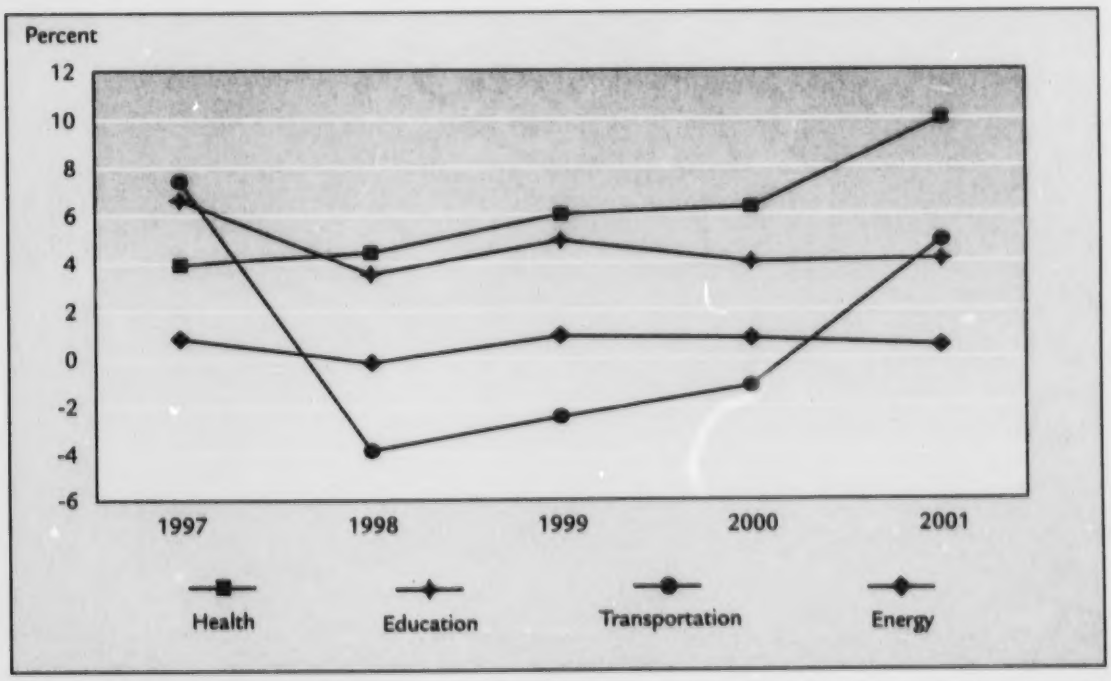


Source: Office of the Auditor General of British Columbia

Government borrows for different reasons: it may do so to finance its operating shortfalls, to build up its stock of capital assets, for investment or lending, or simply to ensure funds are there when it needs them. Exhibit 2.9 shows the increase in book value of the government's infrastructure and revenue-generating capital assets for each of the years 1997 to 2001, compared to the change in debt each year for general programs and for enterprises. In 1997, the government drew down funds it had borrowed in the previous year to finance its annual deficit and capital spending. Between 1998 and 2000, the government increased its borrowing and warehoused funds for use at a later date. In 2001, the government financed its increase in capital assets of $1.2 billion from its annual surplus and by cashing its temporary investments.

Liability Trends

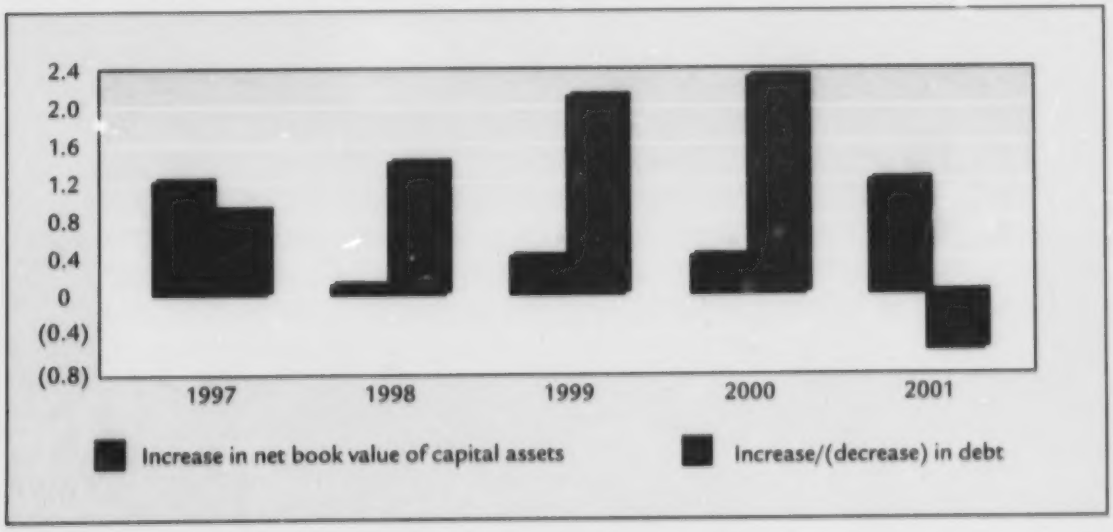
Government is liable for its obligations to individuals, private firms and other governments. Public debt—amounts borrowed by the government—makes up a very large part of this obligation.

Exhibit 2.10 shows the government's debt and other obligations in the last five years, by general programs and enterprises.

Exhibit 2.9

Comparing Changes in Capital Assets and Public Debt, 1997 to 2001

Increase in net book value of capital assets compared to change in debt ($ Billions)



Source: Office of the Auditor General of British Columbia

The liabilities of government enterprises are expected to be paid through their commercial activities. The general program obligations, however, have to be met by financial assets available to government general programs, which include the net assets of enterprises. Any shortage in the equation—referred to as "net liabilities"—will have to be borne by future taxpayers.

Exhibit 2.11 shows the future taxpayers' net liabilities at the end of each of the years 1997 to 2001. Over the five years, net liabilities increased from $19.3 billion to $21.1 billion, an overall increase of 9.3%. In 2001, the increasing trend in net liabilities took a downward (positive) turn—a change that is not expected to be sustained over the short term.

Exhibit 2.10

Liabilities, 1997 to 2001

($ Billions)

	1997	1998	1999	2000	2001
General programs					
Debt	21.1	22.1	23.8	26.5	26.3
Other obligations	7.6	7.6	7.2	7.3	7.4
	28.7	29.7	31.0	33.8	33.7
Enterprises					
Debt	8.0	8.4	8.8	8.4	8.0
Other obligations	6.8	7.3	7.6	7.6	8.4
	14.8	15.7	16.4	16.0	16.4
Total liabilities	**43.5**	**45.4**	**47.4**	**49.8**	**50.1**

Source: Office of the Auditor General of British Columbia

Exhibit 2.11

Net Liabilities, 1997 to 2001

($ Billions)

	1997	1998	1999	2000	2001
Government's liabilities	43.5	45.4	47.4	49.8	50.1
Less: Financial assets (including assets of enterprises)	24.2	25.6	26.7	28.3	29.0
Net liabilities	**19.3**	**19.8**	**20.7**	**21.5**	**21.1**

Source: Office of the Auditor General of British Columbia

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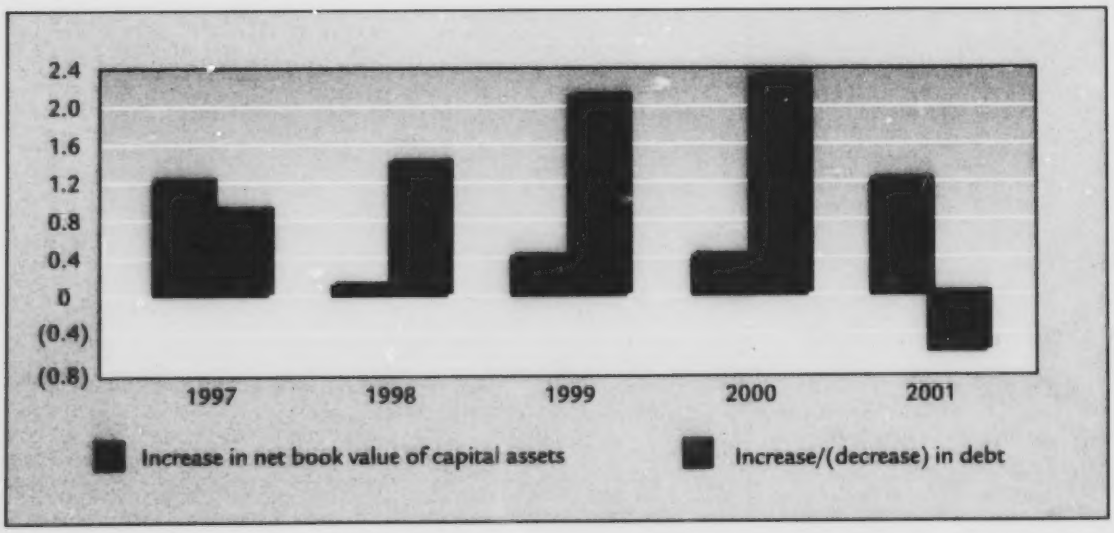

Source: Office of the Auditor General of British Columbia

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Net liabilities	19.3	19.8	20.7	21.5	21.1

Source: Office of the Auditor General of British Columbia

Indicators of Financial Condition

Can the government continue to provide its programs? Is there room for new or different programs? How dependent is the government on lenders and other governments? These are the questions that can be answered if we examine the indicators of financial condition.

In 1997, a research group of the Canadian Institute of Chartered Accountants (CICA) developed the indicators of the government financial condition and published them in a report titled "Indicators of Government Financial Condition." Senior governments and market analysts in Canada have started to use these indicators to monitor the financial condition of the federal and provincial governments with respect to the following concepts:

- **Sustainability** – the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy;
- **Flexibility** – the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden; and
- **Vulnerability** – the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

The CICA recommends 10 indicators of government financial condition, seven of which are relevant to provincial governments. They are summarized in Exhibit 2.12.

Sustainability Indicators

The two sustainability indicators measure the size of the annual surplus/deficit and the net liabilities in relation to the size of the provincial economy. A stable net liabilities to GDP ratio indicates that the rate of growth in the economy is similar to the rate of growth of the province's net liabilities. An increasing ratio would indicate that the government's current fiscal policies are increasing the burden on the provincial economy and on future taxpayers. A declining ratio would signal the opposite.

Exhibit 2.13 shows the five-year trend of net liabilities to GDP for British Columbia. The comparison shows a relatively stable trend, which generally means that the overall burden on taxpayers as a result of government's fiscal policies on

Exhibit 2.12

Indicators of Financial Condition

This report presents a five-year trend for each of the CICA's indicators of government financial condition

Sustainability indicators:

1. Net liabilities to gross domestic product
2. Change in net liabilities to gross domestic product

Flexibility indicators:

3. Public debt charges to revenue
4. Changes in physical capital stock
5. Own-source revenue to GDP

Vulnerability indicators:

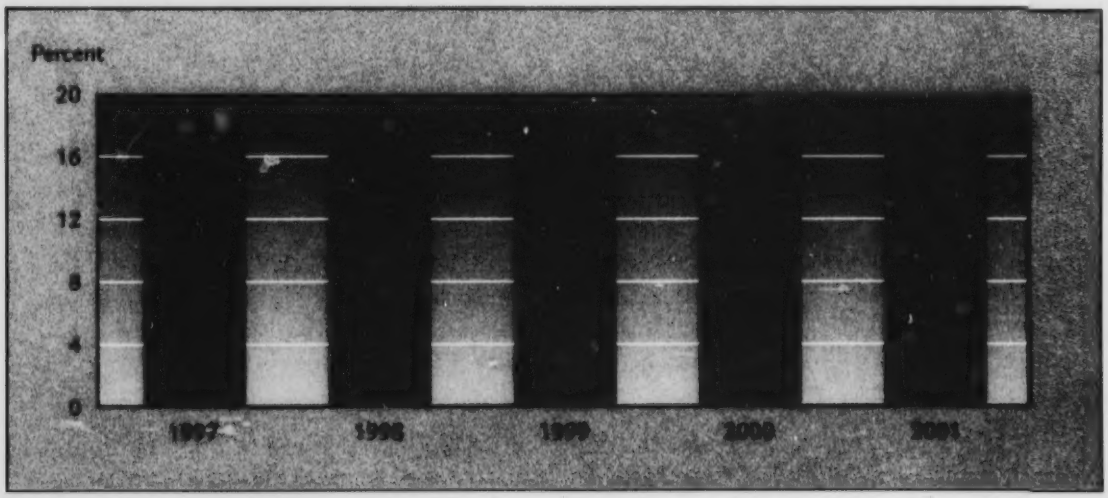
6. Government-to-government transfers to own-source revenue
7. Foreign currency debt to total government debt

Source: Canadian Institute of Chartered Accountants

Exhibit 2.13

Net Liabilities to Gross Domestic Product (GDP), 1997 to 2001

Net liabilities as a percentage of GDP in British Columbia



Source: Office of the Auditor General of British Columbia; Statistics Canada

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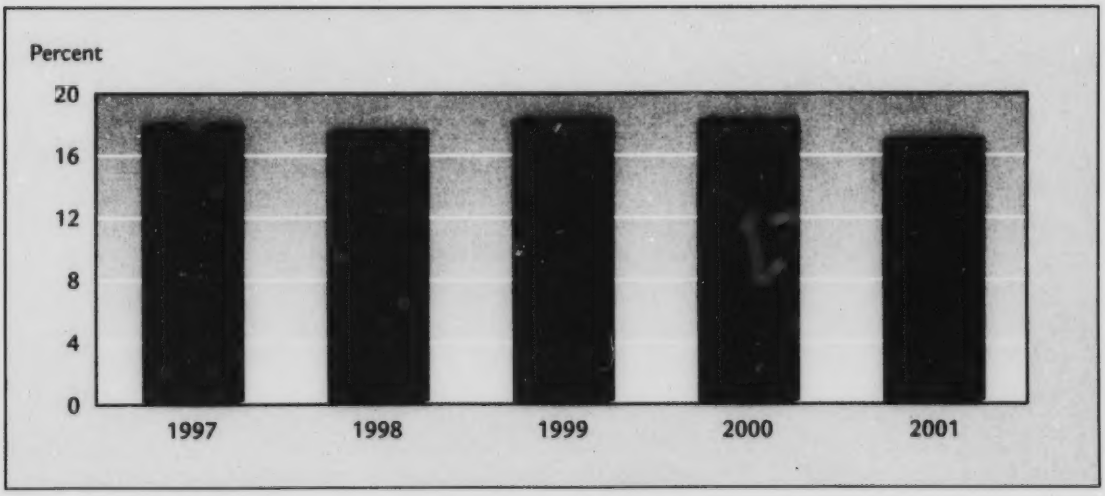
Net Liabilities to Gross Domestic Product (GDP), 1997 to 2001

Net liabilities as a percentage of GDP in British Columbia



Source: Office of the Auditor General of British Columbia; Statistics Canada

spending and revenue-raising practices has remained relatively constant in the last five years.

Exhibit 2.14 shows the change in net liabilities to GDP ratio in British Columbia for each of the past five years. There is no "correct" or "optimal" ratio of net liabilities to GDP that a government should aim to achieve. The trend should be examined in conjunction with other financial indicators of the government's finances. The fluctuation in this ratio over the past five years has been less than 2%.

Flexibility Indicators

The three indicators of government's financial flexibility are:

- public debt charges to revenues;
- changes in physical capital stock; and
- own-source revenue to GDP.

The indicator of public debt charges to revenues, often referred to as the "interest bite," shows how much of each dollar of a province's total revenue is used to pay for servicing total public debt (cost of borrowing). It is normally measured in the form of cents per dollar of revenues. If an increasing portion of the revenues of a province were used by the government for this purpose, then less money would be left for services to taxpayers.

Exhibit 2.15 shows the five-year trend in public debt charges to revenues. The interest bite trend for British Columbia improved slightly between 1997 and 2001. We calculated the interest bite of the Province to be approximately 6.2 cents for the 2000/01 fiscal year (compared to 7.3 cents in 1999/2000). This improvement in the interest bite was due mainly to the substantial increase in 2000/01 revenues, offset by a small increase in the total cost of borrowing.

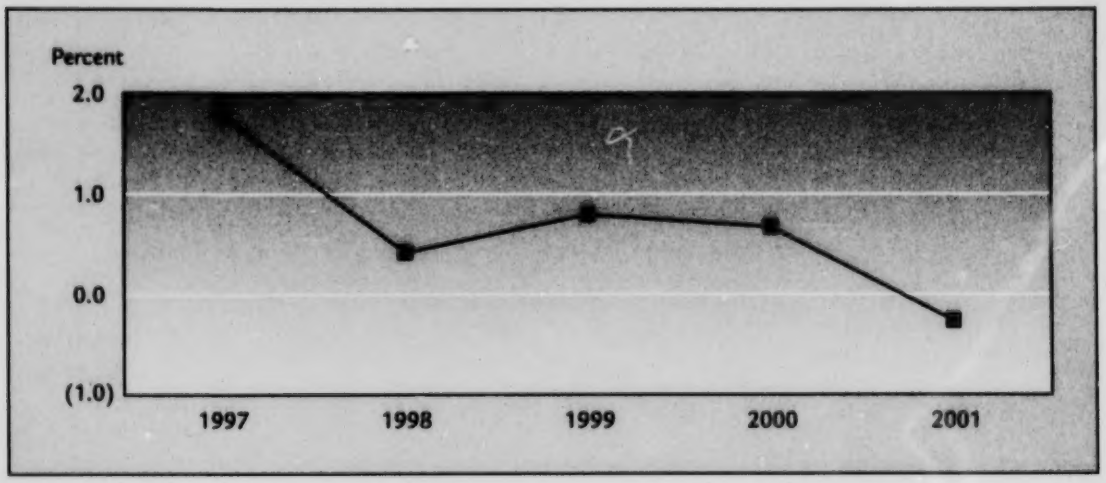
The trend of changes in physical capital stock indicates the net amount of spending on infrastructure and other capital items by government. It is measured as the percentage change in the net book value of physical assets (cost less accumulated depreciation).

Governments should put in place and maintain adequate infrastructure for serving its citizens. Any deferring of expenditures on maintenance can lead to the need for expensive corrections at a later date—and such strain on future resources reduces the flexibility of governments to provide other services.

Exhibit 2.14

Change in Net Liabilities to Gross Domestic Product (GDP), 1997 to 2001

Annual change in net liabilities expressed as a percentage of GDP in British Columbia

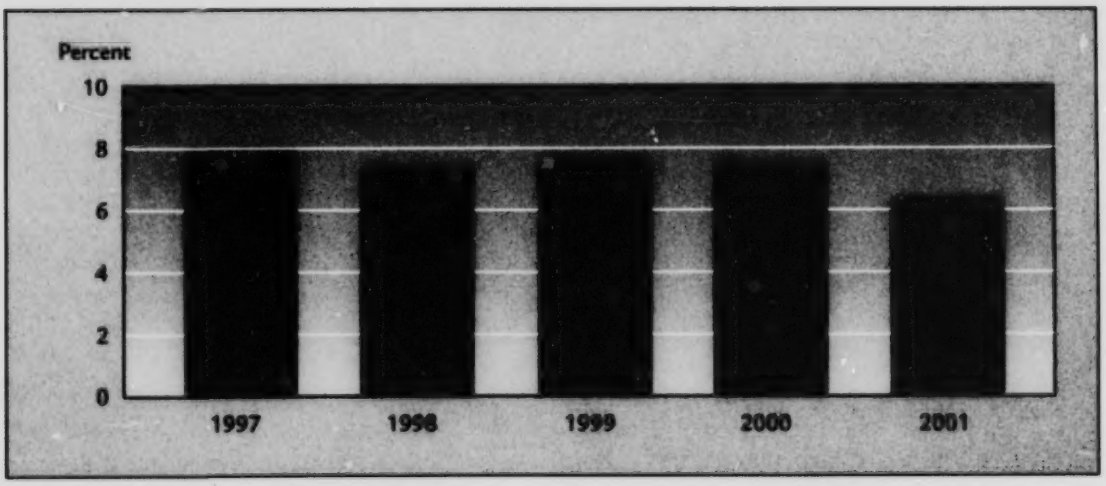


Source: Office of the Auditor General of British Columbia; Statistics Canada

Exhibit 2.15

Public Debt Charges to Revenues (the "Interest Bite"), 1997 to 2001

Debt interest expense as a percentage of total provincial revenue



Source: Office of the Auditor General of British Columbia

Exhibit 2.16 shows the annual percentage changes in physical capital stock of the provincial government from 1997 to 2001. As the graph indicates, the government's capital spending on infrastructure assets was constrained in 1998, and then increased annually from 1999 to 2001.

The ratio of own-source revenue to GDP represents the extent to which the government is taking income from its own economy in the form of taxation revenue and user fees. Typically, own-source revenue is all revenue other than federal transfers. This indicator measures the percentage of revenues that a government collects directly from the value of the provincial economy.

Exhibit 2.17 shows the ratio of own-source revenue to GDP for the five years 1997 to 2001. The government has raised its own-source revenue steadily over the last five years at a pace slightly faster than the growth of the province's economy.

Vulnerability Indicators

The two relevant indicators of government's financial vulnerability are:

- government-to-government transfers to own-source revenue; and
- foreign currency debt to total government debt.

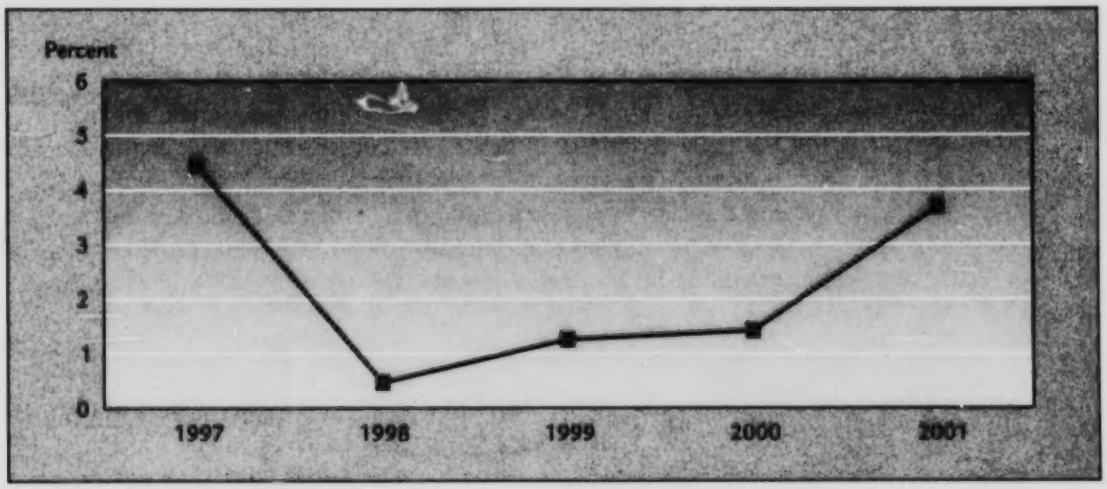
The idea behind this set of indicators is that funds obtained from federal or international sources (either from government transfers or borrowing) are not considered to be as controllable as revenue generated within a province. Own-source revenue is more controllable by a government through tax legislation, the changing of fees and licences, or the imposition of new fees and licences.

Provinces receive transfers from the federal government to support delivery of health, education, social services and other programs. Government-to-government transfers to own-source revenue compares federal government transfers to revenue raised through provincial taxation, fees, licences and earnings of a provincial government's commercial enterprises. Any increase in the ratio may denote a higher dependence of a province on the federal government as a funding source. Because provinces do not normally control federal decisions, an increase in their dependence will likely add to their financial vulnerability.

Exhibit 2.16

Changes in Physical Capital Stock, 1997 to 2001

Annual percentage change in the net book value of capital assets

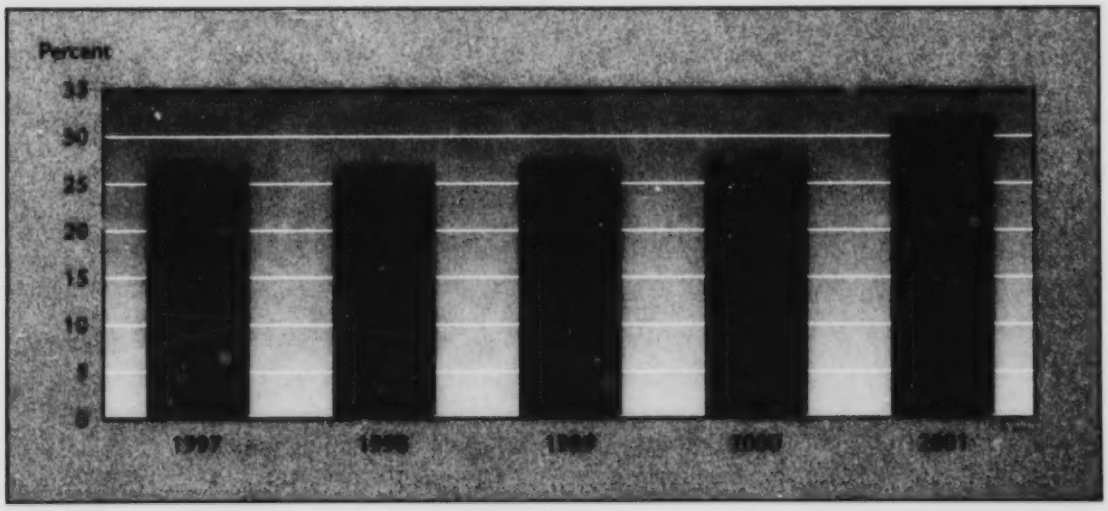


Source: Office of the Auditor General of British Columbia

Exhibit 2.17

Own-source Revenue to Gross Domestic Product (GDP), 1997 to 2001

Provincial revenue, net of federal transfers, as a percentage of GDP in British Columbia



Source: Office of the Auditor General of British Columbia; Statistics Canada

Exhibit 2.18 shows the percentage of the government-to-government transfers to own-source revenue for British Columbia, for the five years ending March 31, 2001. The province's dependence on the federal government for funding has remained relatively stable over the years. A slight increase occurred in 2000 because of additional contributions received from the federal government as the result of a change in federal fiscal policy in that year toward all provinces.

The government of British Columbia often borrows in foreign currencies. However, to minimize its vulnerability to foreign currency swings, the government enters into derivative contracts such as currency swaps and forward contracts for most foreign-denominated debt. These contracts ensure that debt repayments are fixed in Canadian dollars. For many years, information concerning public debt issued in foreign currencies has been included in a note to the government's financial statements. The note discloses any "hedging" through foreign currency derivative contracts.

Exhibit 2.19 shows the non-hedged foreign currency debt as a percentage of the total debt of the Province of British Columbia, for the five years ending March 31, 2001. The increase in 2000 was due mainly to the issuance of additional non-hedged foreign-denominated debt during the year.

The ratio of non-hedged foreign currency debt to total government debt shows the degree of vulnerability of a government's public debt position to swings in foreign currency. Tracking monies borrowed by the government in currencies other than the Canadian dollar is important because of the uncertainties associated with exchange rates when repayment comes due.

Economic Trends

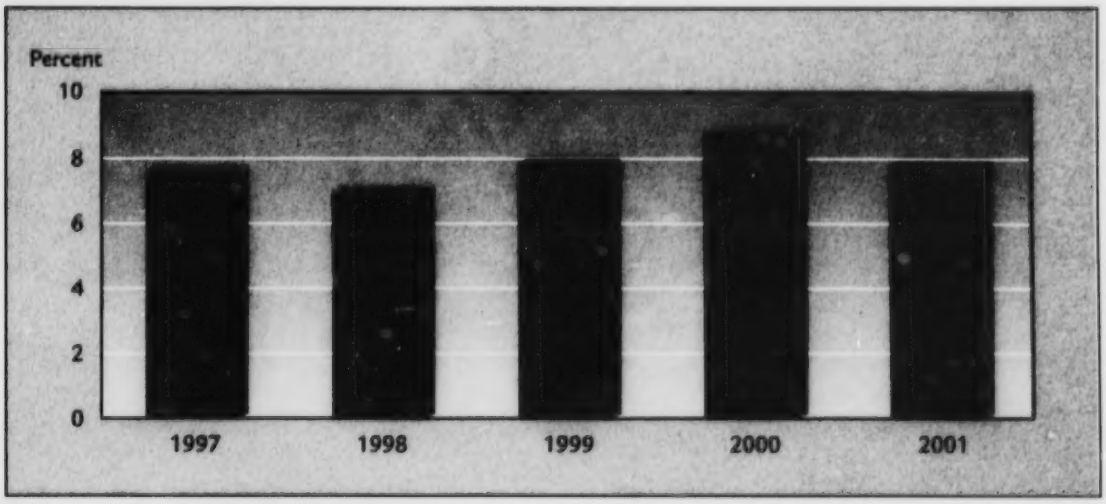
The government's business can influence, and be influenced by, changes in the economy. On the income side, the taxation, resource and other government revenues are closely tied to the performance of British Columbia's economy. A vibrant economy will normally produce greater revenues. In turn, spending that revenue in the province can play an important role in stimulating economic growth.

In the 2000/01 fiscal year, in comparison to other western Canadian jurisdictions and Ontario, British Columbia experienced relatively lower inflation, higher unemployment, and lower (except compared to Manitoba) GDP per capita.

Exhibit 2.18

Government-to-Government Transfers to Own-source Revenue, 1997 to 2001

Federal transfers as a percentage of all other government revenue

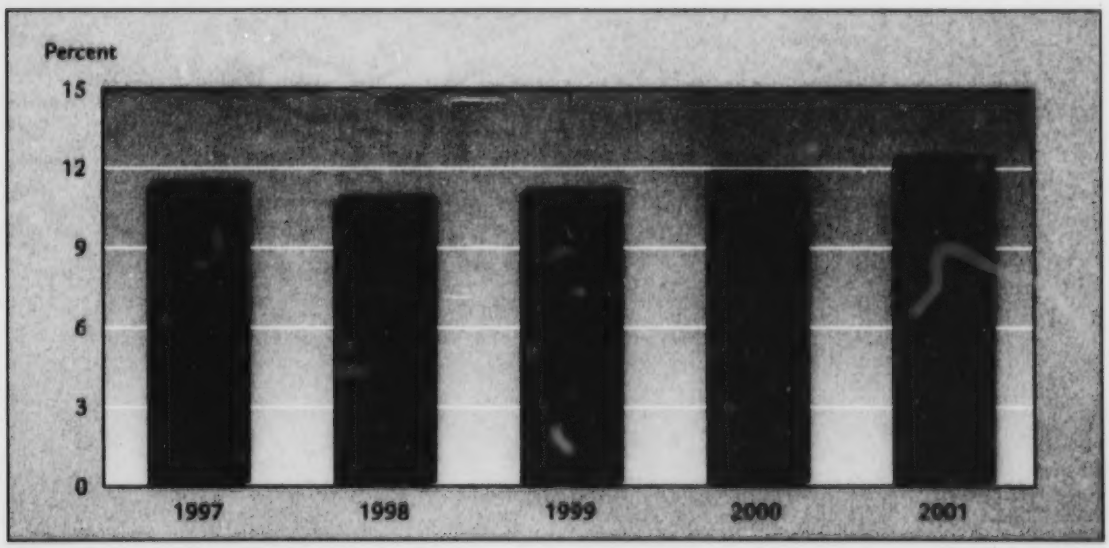


Source: Office of the Auditor General of British Columbia

Exhibit 2.19

Foreign Currency Debt to Total Government Debt, 1997 to 2001

Non-hedged foreign currency debt as a percentage of total government debt



Source: Office of the Auditor General of British Columbia; Ministry of Finance

Exhibit 2.20 compares inflation, unemployment and GDP per capita in all Western Canadian provinces and Ontario for 2001.

Comparing provincial statistical and economic information is not without problem. Much work needs to be done to make such comparisons relevant. For instance, statistical and economic information is constantly being updated, and this can often result in significant changes. It is therefore important to ensure that the date of such information is the same when interprovincial comparisons are being made.

The provincial rate of growth of GDP is an important indicator of economic performance. At 5.8% growth, British Columbia's economy performed better than projected in the Province's Budget 2000, which helps explain the overall improvement in the government's financial results in the 2000/01 fiscal year. This improvement, however, was largely due to high energy prices over the previous year which, based on information available in July 2001, is not expected to last.

Another widely used intergovernmental indicator of government financial performance is credit rating. As a service to lenders, credit rating agencies keep watch on changes in the provinces' financial condition and publicly report on them. In the view of these agencies, British Columbia has been able to keep its high standing in the international financial market, although its ranking has dropped from the highest rated province in Canada to the second highest rated province, after Alberta.

Exhibit 2.20

Economic Indicators for the Western Provinces and Ontario, 2001

British Columbia has high unemployment, low inflation and low gross domestic product (GDP) per capita

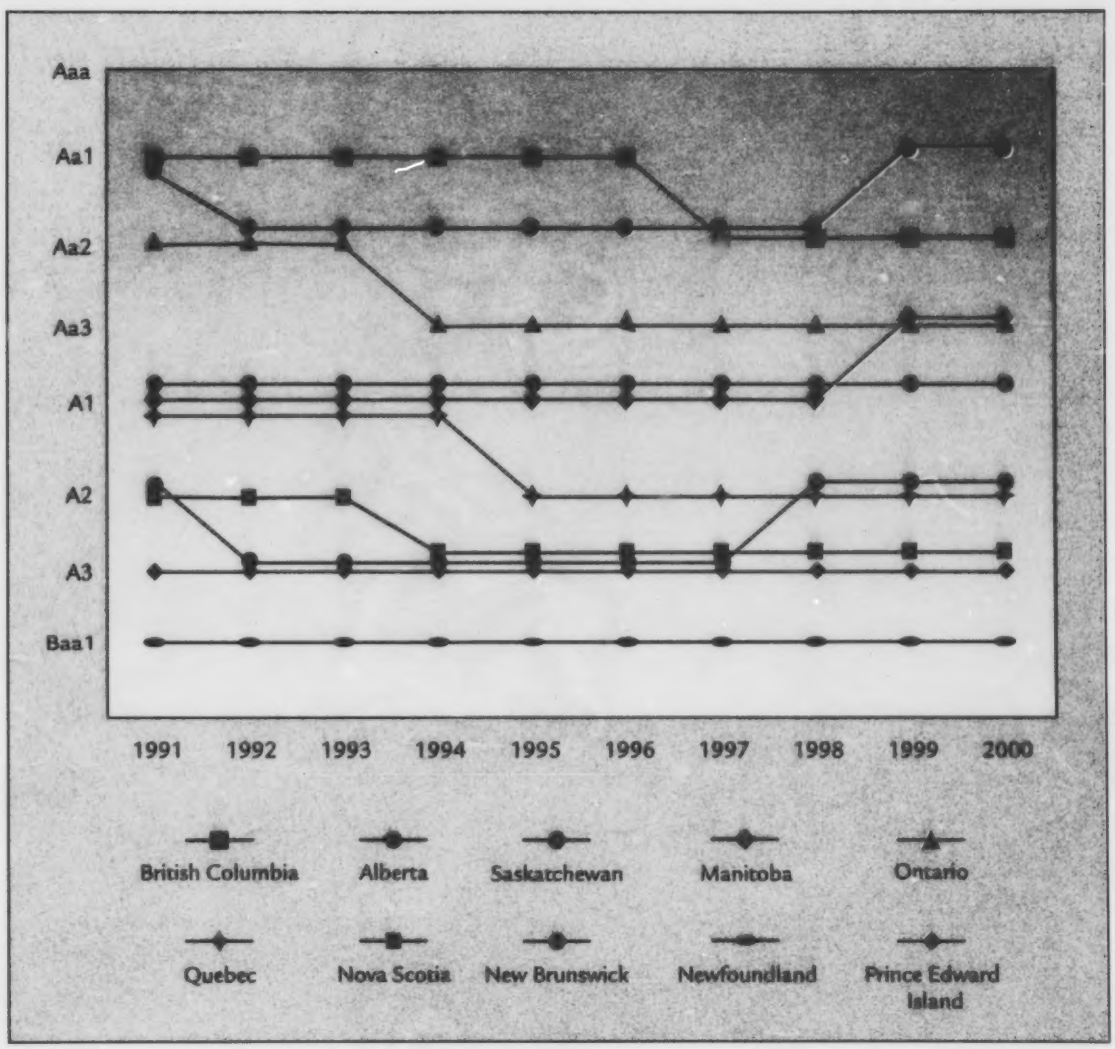
	Inflation %	Unemployment %	GDP per capita $
British Columbia	1.86	7.2	31,400
Alberta	3.50	5.0	47,700
Saskatchewan	2.68	5.2	32,700
Manitoba	2.56	4.9	29,400
Ontario	2.86	5.7	36,800

Source: Statistics Canada

Exhibit 2.21 compares British Columbia's credit rating by Moody's Investors Service to the other provinces over the last 10 years.

Exhibit 2.21

Credit Rating of all Provinces, 1991 to 2000



Source: Moody's Investors Service

Exhibit 2.20 compares inflation, unemployment and GDP per capita in all Western Canadian provinces and Ontario for 2001.

Comparing provincial statistical and economic information is not without problem. Much work needs to be done to make such comparisons relevant. For instance, statistical and economic information is constantly being updated, and this can often result in significant changes. It is therefore important to ensure that the date of such information is the same when interprovincial comparisons are being made.

The provincial rate of growth of GDP is an important indicator of economic performance. At 5.8% growth, British Columbia's economy performed better than projected in the Province's Budget 2000, which helps explain the overall improvement in the government's financial results in the 2000/01 fiscal year. This improvement, however, was largely due to high energy prices over the previous year which, based on information available in July 2001, is not expected to last.

Another widely used intergovernmental indicator of government financial performance is credit rating. As a service to lenders, credit rating agencies keep watch on changes in the provinces' financial condition and publicly report on them. In the view of these agencies, British Columbia has been able to keep its high standing in the international financial market, although its ranking has dropped from the highest rated province in Canada to the second highest rated province, after Alberta.

Exhibit 2.20

Economic Indicators for the Western Provinces and Ontario, 2001

British Columbia has high unemployment, low inflation and low gross domestic product (GDP) per capita

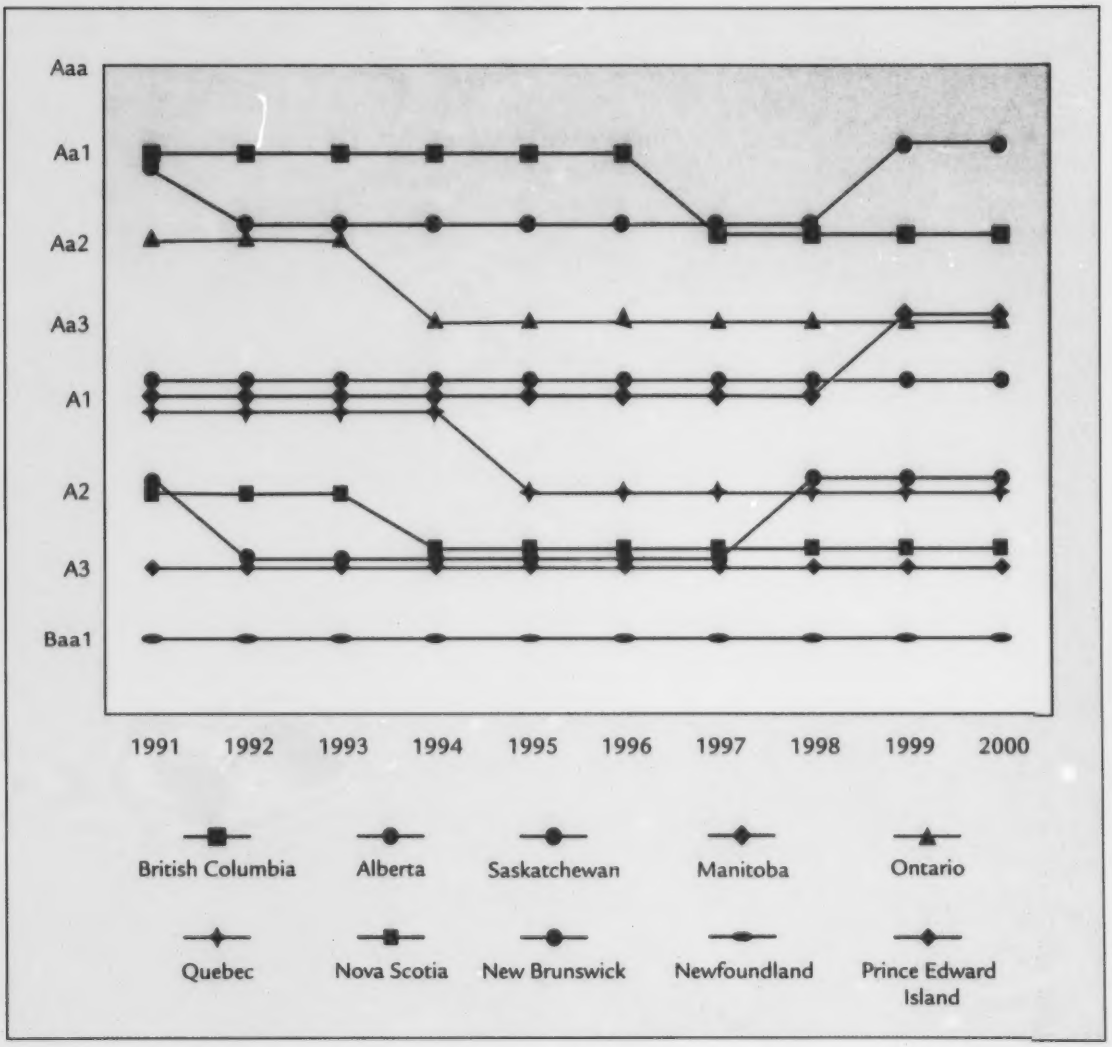
	Inflation %	Unemployment %	GDP per capita $
British Columbia	1.86	7.2	31,400
Alberta	3.50	5.0	47,700
Saskatchewan	2.68	5.2	32,700
Manitoba	2.56	4.9	29,400
Ontario	2.86	5.7	36,800

Source: Statistics Canada

Exhibit 2.21 compares British Columbia's credit rating by Moody's Investors Service to the other provinces over the last 10 years.

Exhibit 2.21

Credit Rating of all Provinces, 1991 to 2000



Source: Moody's Investors Service

Detailed Financial Information Framework, 1997 to 2001

Revenue and Expense
for the Years Ended March 31
(Amounts in $ Millions)

	1997	1998	1999	2000	2001
General programs					
Revenue					
Taxation	13,463	13,551	13,620	13,796	14,381
Natural resources	2,671	2,681	2,015	2,821	4,181
Federal transfers	2,173	2,065	2,398	2,855	3,061
Other	4,858	5,299	5,531	5,709	6,365
	23,165	23,596	23,564	25,181	27,988
Expense					
Health	7,456	7,820	8,102	8,814	9,421
Education	6,447	6,526	6,928	7,164	7,729
Social services	3,099	3,181	3,146	3,115	3,263
Transportation, protection, econ. dev.	3,940	4,568	4,635	4,337	4,560
General government, debt servicing	3,535	3,462	3,218	3,017	3,144
	24,477	25,557	26,029	26,447	28,117
	(1,312)	(1,961)	(2,465)	(1,266)	(129)
Enterprises					
Revenue					
BC Hydro	2,403	2,533	3,018	3,458	7,889
Insurance Corporation of BC	2,624	2,690	2,822	2,966	2,872
BC Liquor Distribution Branch	1,543	1,598	1,645	1,671	1,732
BC Railway Company	421	427	418	479	496
Other	893	1,036	1,531	1,806	1,507
	7,884	8,284	9,434	10,380	14,496
Expense					
BC Hydro	2,064	2,125	2,622	2,912	7,340
Insurance Corporation of BC	2,779	2,676	2,761	2,776	2,886
BC Liquor Distribution Branch	956	992	1,029	1,054	1,090
BC Railway Company	385	387	391	1,062	502
Other	625	778	1,111	1,281	953
	6,809	6,958	7,914	9,085	12,771
	1,075	1,326	1,520	1,295	1,725
Total annual surplus/(deficit)	**(237)**	**(635)**	**(945)**	**29**	**1,596**

Assets and Liabilities as at March 31
(Amounts in $ Millions)

	1997	1998	1999	2000	2001
General programs					
Financial assets	6,419	7,205	7,419	9,580	9,550
Liabilities	28,651	29,737	30,983	33,801	33,701
	(22,232)	(22,532)	(23,564)	(24,221)	(24,151)
Enterprises					
Assets					
BC Hydro	10,462	10,392	10,716	10,617	11,467
Insurance Corporation of BC	5,263	5,630	5,957	5,974	5,909
BC Liquor Distribution Branch	89	84	91	92	111
BC Railway Company	1,647	1,759	1,920	1,387	1,372
Other	299	574	615	744	528
	17,760	18,439	19,299	18,814	19,387
Liabilities					
BC Hydro	8,981	9,136	9,363	9,065	9,776
Insurance Corporation of BC	5,053	5,406	5,672	5,499	5,428
BC Liquor Distribution Branch	89	84	91	92	111
BC Railway Company	515	590	765	852	846
Other	181	461	523	561	225
	14,819	15,677	16,414	16,069	16,386
	2,941	2,762	2,885	2,745	3,001
Net liabilities	**(19,291)**	**(19,770)**	**(20,679)**	**(21,476)**	**(21,150)**
General infrastructure assets	18,248	18,236	18,415	19,241	20,511
Accumulated surplus/(deficit)	**(1,043)**	**(1,534)**	**(2,264)**	**(2,235)**	**(639)**

Source: Summary Financial Statements of the Government of the Province of British Columbia, including notes, schedules and supplementary information

response of the ministry of finance

Introduction:

We wish to thank the Office of the Auditor General of British Columbia (OAG) for the opportunity to review and comment on Report 4: Monitoring the Government's Finances. This report goes beyond the normal commentary on the Summary Financial Statements, and accounting policies and practices, and provides the Auditor General's view of what would be complete financial reporting. It also reiterates some long standing issues, e.g., adoption of generally accepted accounting principles (GAAP), which are being addressed.

With respect to the comments applicable to the Summary statements, we will continue to review and consider all the OAG recommendations in preparing the 2001/02 Public Accounts. We remain committed to presenting understandable and useful financial statements.

In addition to the Public Accounts, the province provides information very similar to what is suggested by the Auditor General in the Debt Statistics report, the Financial and Economic Review, and the Quarterly Reports published each year by the government. The Auditor General's report will be useful as the Ministry of Finance reviews its current reporting documents and deals with the question as to where and how such information should best be reported.

Overall, financial reporting in its various forms, including the annual Public Accounts, is the responsibility of management. The reports are, therefore, prepared with concern for their usefulness to readers and in accordance with the requirements of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

Comments on specific recommendations:

Recommendation: The government implement generally accepted accounting principles (GAAP) as soon as possible.

Generally Accepted Accounting Principles

The province is committed to the implementation of GAAP and amended the Budget Transparency and Accountability Act *to require GAAP by 2004/05. Although government's reporting is already very close to GAAP for senior governments, moving to GAAP is a significant implementation challenge. The two areas in which the government is not consistent are the exclusion of the Schools, Universities and Institutes, Colleges and Health Care Organizations*

(SUCH sector) from the entity, and the treatment of prepaid capital advances and tangible capital assets. We disclose these differences in Note 1 to the Summary Financial Statements and have provided supplementary information on the impact of these differences.

Appropriate Financial Framework

A) The inclusion of the SUCH Sector in the audited financial statements

As noted above, this question will be resolved as part of our progress in complying with the legislated move to GAAP by fiscal 2004/05. An implementation plan has been developed. The full consolidation of the SUCH sector, however, is more than a simple accounting task. There are significant implications for the entire financial framework, including budgeting, forecasting and questions of local versus provincial accountability, which require consultation with the numerous entities.

As we proceed, we will also be monitoring the ongoing policy discussions at PSAB as they review the nature of government reporting entities and refine the standards of inclusion and exclusion from a consolidated summary entity. It is possible that new recommendations will be made by PSAB regarding both who should be in the reporting entity and how they should be reflected in the financial statements. It is to these final policies that we are, and will be, committed.

In the interim, we will continue to present supplementary information concerning the overall financial framework in the form of additional detailed schedules supporting the main summary statements (see the "Supplementary Information" section in the Public Accounts).

B) Form of Financial Statements

The government is committed to openness and transparency and, therefore, to providing clear information to inform British Columbians on the state of its finances. Aside from the required PSAB recommendations, the content and format of the annual report is management's responsibility. Except that we use a separate schedule for Net Liability, the form currently used to present financial information for the British Columbia government is both comparable with other senior governments, and consistent with current PSAB requirements.

In discussing Report 4, we have been advised by the Office of the Auditor General that they wanted to go beyond their normal commentary on the form of the financial statements. The Auditor General wanted to put forward other possible disclosure statements to better inform the reader. While we accept these as comments, we are concerned with the formats used.

The OAG has presented statements that move away from the traditional format currently recommended by PSAB. For example, the Auditor General has incorporated Gross Domestic Product (GDP) numbers as part of the Statement of Financial Position. In addition, the whole of government activity has been separated into two components described as "General Programs" and "Enterprises," effectively creating two separate bottom lines. When calculating total revenues and expenses for the government, the Auditor General is combining the two numbers. As will be noted below, this can interfere with a proper evaluation of the results of the taxpayer-supported General Programs and comparison of operations with other provinces.

We are not convinced that this is better or more understandable information than the present schedules which incorporate the net results from Enterprises, for the following reasons:

- *Statistics Canada continues to revise its early estimate of provincial GDP as new information becomes available. Often their revisions significantly change original estimates. The validity of such an amount on audited financial statements would be subject to question.*
- *The presentation of enterprise corporations would be inconsistent with the practices of other provinces and PSAB recommendations.*
- *The proposed format would require detailed budget presentation and restructuring to maintain the comparability of actual Public Accounts numbers to Budget.*
- *There would also be potential concerns by enterprise corporations operating in a competitive market over disclosure of key financial data to their competitors.*

The Office of the Comptroller General will continue to explore these presentation possibilities with the OAG, and to research with other provinces and standard setters regarding financial condition reports.

Recommendation: That the government use the indicators of financial condition identified by the CICA, and other important financial and economic measures, to inform the legislators and citizens of British Columbia of the state of the government's finances.

The use of financial indicators aided by graphic comparisons of key financial data with economic trends was reviewed in a published research project completed by the CICA in 1997. They were presented as options to be considered by senior governments and are not fully adopted by any government. It has not since been amplified or made part of their recommendations.

Nevertheless, financial indicators are useful and are currently part of our reports. For example, the Public Accounts for fiscal 2001, page 103, provide seven key indicators. Numerous other indicators are presented in the Debt Statistics report (published concurrently with the Public Accounts), and in the Fiscal and Economic Review, budget documents and quarterly reports. These continue to be issues of comparability of indicators between provinces.

We have a specific concern about including the gross trading revenue and expense transactions of Enterprises in such a comparison as Exhibits 2.3 and 2.6. The OAG has combined enterprises and other organizations to display total revenue and expense for government in a way that is not consistent with the CICA guidelines. For example, the anomalous line for Enterprises includes the gross volumes of BC Hydro power trading. Trade comparisons of government revenues and spending are particularly difficult when including utility items such as energy trading revenues and expenses.

As the government continues to enhance its financial and other performance reporting, there will need to be a considered review of what is the best model for presenting the information to our stakeholders and financial statement users. The information needs of these users are in themselves very different, e.g. the general public and debt rating agencies, and no one document or format is expected to meet all their needs. We will continue, therefore, to work closely with our statement users and the Auditor General in designing the best reporting package or packages. This will also require us to keep abreast of the evolving PSAB requirements and practices in other provinces.

There is also a concern in that we must present financial and non-financial information on the same periodic basis. It appears in the OAG report there is the use of fiscal year financial information together with calendar based economic data.

Summary:

The OAG has presented some interesting reporting options by taking currently published schedules, re-formatting and re-grouping the information, and including economic and financial indicators.

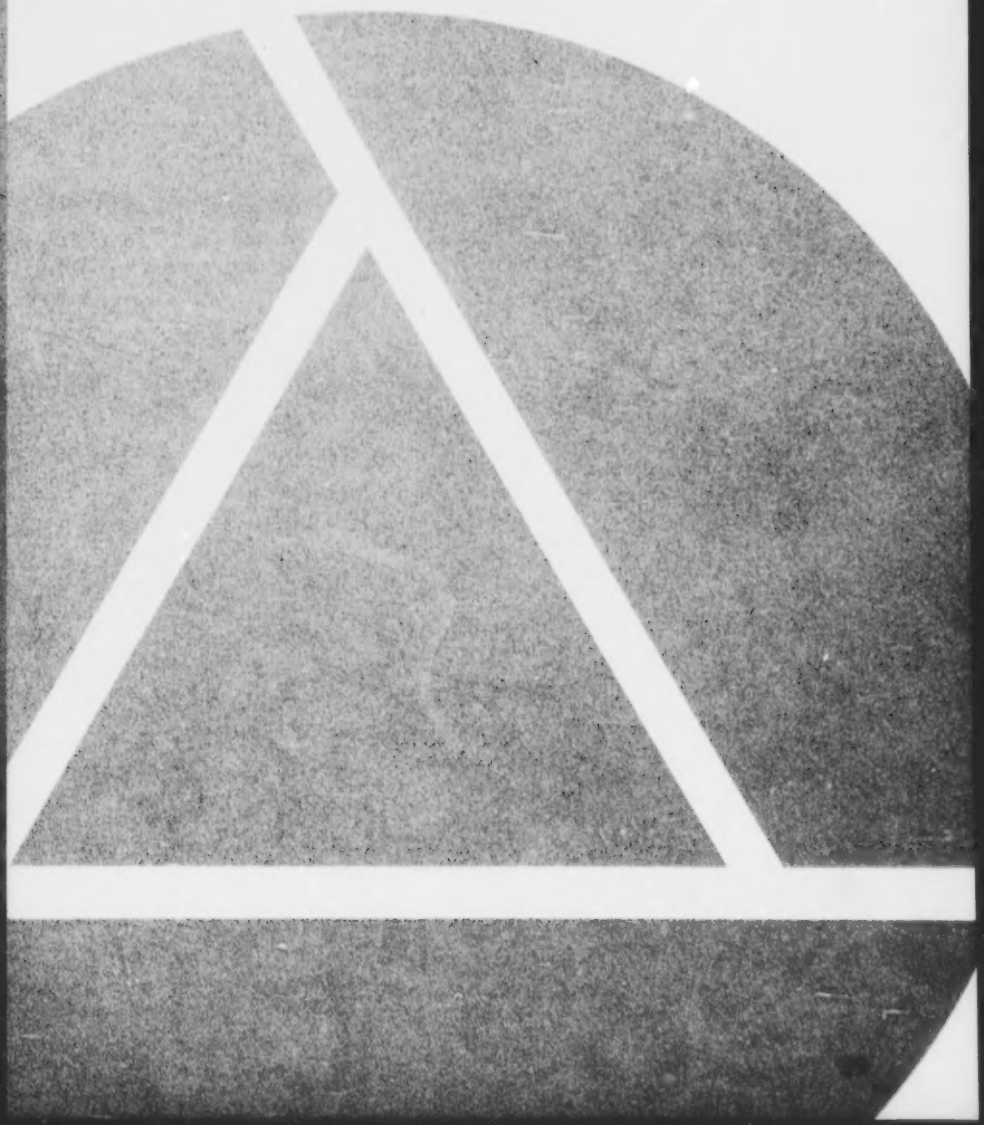
We feel considerable care needs to be taken in including economic and non-financial information together and that we should do so only as it would enhance the meaning of the financial information for all users. This may mean including some indicators with summary statements, and maintaining separate reporting for other information. In fact, this OAG report, since it goes beyond the Auditor General's normal review

of financial statements, requires broader review and input. The discussion concerning how and where to present non-financial information in relation to financial statements is ongoing.

As management identifies and approves new and different reporting forms that enhance the utility of financial information, they will be implemented. The changes will include discussions with our users and, of course, with the Auditor General. In the meantime, the government is focusing on its commitment to implement GAAP by fiscal 2004/05.

January 2002

glossary



glossary

Accumulated surplus/deficit	The total of all past annual surpluses and deficits to date.
Annual surplus/deficit	The difference between the government's annual revenues and expenses.
Derivative contract	A "swap" or other financial instrument that is entered into with a third party, and is used to hedge interest rate, foreign currency or other risk exposures.
Enterprises	Also known as commercial, self-supporting, or modified equity enterprises. These are self-sufficient Crown corporations that sell goods or services to parties outside the government reporting entity.
Federal transfers	Funds received by the Province from the Federal government, such as the Canada Health and Social Transfer.
Financial assets	Assets of government (such as cash, investments, loans and accounts receivable) that can be converted to cash in order to pay government's liabilities or finance its future operations.
General infrastructure assets	Also known as capital assets, physical assets, tangible assets, non-financial assets, physical capital stock. These general program capital assets form the infrastructure necessary to provide services to citizens.
Generally accepted accounting principles (GAAP)	This refers to the accounting policies that government should follow in order to be consistent in its accounting practices with other, similar, organizations. The accepted authority for GAAP for Canadian governments is the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).
General programs	Those activities of government which are not carried out by its profit-oriented enterprises.
Government reporting entity	The group of organizations that are consolidated in the government's main summary financial statements.

Gross domestic product (GDP)	The money value of goods and services produced within a geographical boundary. GDP can be reported without adjusting for inflation (known as market value, current, or nominal GDP) or it may be discounted for the effects of inflation (real GDP). GDP in this report is not adjusted for inflation.
Hedging	Reducing potential exposure to foreign currency, interest rate or other risks. Often achieved by entering into derivative contracts with a third party.
Net liabilities	Defined as government's total liabilities less its financial assets, this is the residual liability amount that will have to be paid or financed by future taxpayers.
Public debt	Borrowings of the government. Debt generally consists of debentures, notes payable, capital leases and mortgages.
Public debt charges	Also known as the cost of borrowing, or debt servicing costs, this is the interest incurred by government on its borrowings.
SUCH sector	Refers to school districts, universities, colleges and health authorities.
Summary financial statements	The financial statements through which government reports its financial position and operating results.

appendices

appendix a

2000/01 Summary Financial Statements

Report of the Auditor General of British Columbia

Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia for the year ended March 31, 2001

Balance Sheet 25

Statement of Operations 26

Statement of Changes in Cash and Temporary Investments 27

Statement of Net Liabilities 29

Notes to Summary Financial Statements 30

Reporting Entity 61

Balance Sheet by Sector 63

Statement of Operations by Sector 65

Statement of Self-Supported Crown Corporations and Agencies, Summary of Financial Position 66

Statement of Self-Supported Crown Corporations and Agencies, Summary of Results of Operations and Statement of Equity 67

Statement of Tangible Capital Assets 68

Statement of Guaranteed Debt 69

Report of the Auditor General of British Columbia

ON THE SUMMARY FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF BRITISH COLUMBIA

To the Legislative Assembly
of the Province of British Columbia

I have audited the balance sheet and the statement of net liabilities of the Government of the Province of British Columbia as at March 31, 2001, and its statements of operations and of changes in cash and temporary investments for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

As required by the *Auditor General Act*, I advise Members of the Legislative Assembly these financial statements are presented in accordance with the stated accounting policies and on a basis consistent with that applied to the comparative amounts of the preceding year. In addition, I advise that I have been provided all of the information I required.

Reservation

In note 1 to these financial statements, the Government reports that its stated accounting policies are not fully consistent with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants. Consequently, these financial statements do not include the complete planned and actual financial results of school districts, universities, colleges and institutes, public health care organizations, and regional hospital districts.

. . . 2

Had a complete accounting been provided as at March 31, 2001, (as disclosed in note 1c), total assets would increase by $5,259 million ($4,724 million at March 31, 2000), total liabilities would increase by $2,426 million ($1,989 million at March 31, 2000), and the net deficiency would decrease by $2,833 million ($2,735 million at March 31, 2000). Similarly, for the year ended March 31, 2001, total revenues would increase by $1,874 million ($1,882 million for 2000), total expenses would increase by $1,776 million ($1,893 million for 2000), and the annual surplus would increase by $98 million (decrease by $11 million for 2000).

In these financial statements, the Government has placed lesser emphasis on its "net liabilities" by providing this key indicator of financial position in a separate statement rather than reporting it as an integral part of the Government's balance sheet, as recommended by The Canadian Institute of Chartered Accountants.

Opinion

In my opinion, except for the effects of my reservation explained in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2001, the results of its operations and the changes in its cash and temporary investments for the year then ended, in accordance with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants.

Wayne Strelioff

Victoria, British Columbia
June 8, 2001

Wayne Strelioff, CA
Auditor General

OFFICE OF THE
Auditor General
of British Columbia

Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia

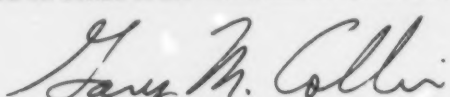
Responsibility for the integrity and objectivity of the Summary Financial Statements of the Government of the Province of British Columbia rests with the government. These financial statements are prepared by the Comptroller General under the direction of Treasury Board, in accordance with the government's stated accounting policies. The fiscal year of the government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control. These systems give due consideration to costs, benefits and risks, and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, agencies and Crown corporations to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in that respect are contained in section 10 of the *Auditor General Act.*

Annually, the financial statements are tabled in the Legislature as part of the Public Accounts, and are referred to the Select Standing Committee on Public Accounts of the Legislative Assembly. The Select Standing Committee on Public Accounts reports to the Legislative Assembly on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:



GARY COLLINS
Chair, Treasury Board

Summary Financial Statements
Balance Sheet
as at March 31, 2001

	Note	In Millions 2001	2000
Assets		$	$
Cash and temporary investments	3	554	1,569
Warehouse Program investments	4	1,312	1,320
Accounts receivable	5	2,802	2,353
Inventories	6	305	245
Due from other governments	7	229	271
Due from self-supported Crown corporations and agencies	8	422	417
Equity in self-supported Crown corporations and agencies	9	3,001	2,742
Loans, advances and mortgages receivable	10	574	382
Other investments	11	252	299
Loans for purchase of assets, recoverable from agencies	12	7,437	7,530
Other assets	13	339	340
Prepaid capital advances	14	6,905	6,517
Tangible capital assets	15	10,985	10,244
		35,117	**34,229**
Liabilities and Net Equity			
Accounts payable and accrued liabilities	16	3,119	2,924
Due to other governments	17	104	103
Due to Crown corporations, agencies and funds	18	71	82
Deferred revenue	19	580	527
Unfunded pension liabilities	20	1,477	2,053
Taxpayer-supported debt	21	24,619	24,794
Self-supported debt	22	8,619	8,711
		38,589	39,194
Net equity (deficiency)	24	(3,472)	(4,965)
		35,117	**34,229**
Net liabilities	25	21,362	21,726
Contingencies and commitments	26		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with the accounting policies as determined by Treasury Board.

ARN VAN IERSEL
Comptroller General

Summary Financial Statements
Statement of Operations
for the Fiscal Year Ended March 31, 2001

	In Millions		
	2001 Estimates (Note 30)	2001 Actual	2000 Actual
Revenue	$	$	$
Taxation (Note 27)	13,581	14,315	13,734
Natural resources	2,696	4,181	2,821
Fees and licences	1,975	2,025	1,965
Investment earnings (Note 27)	106	294	198
Miscellaneous	407	877	566
Net earnings of self-supported Crown corporations and agencies (Note 9)	2,350	1,725	1,295
Contributions from the federal government	2,800	2,912	2,704
Recoveries	1,037	1,510	1,311
Total revenue	24,952	27,839	24,594
Expense			
Health (Note 28)	8,306	8,985	8,082
Social services	3,761	3,263	3,115
Education (Note 28)	6,158	6,436	6,050
Protection of persons and property	1,318	1,227	1,229
Transportation (Note 28)	1,505	1,546	1,684
Natural resources and economic development	1,578	1,791	1,438
Other	689	761	784
General government	244	407	403
Interest (Note 28)	2,003	1,873	1,769
Operating expense before loss on pension settlement (Note 28)	25,562	26,289	24,554
Less: forecast allowance	300		
Less: loss on pension settlement (Note 33)		52	
Surplus (deficit) for the year compared to Estimates adjusted for pension accounting change	(910)	1,498	40
Less: impact of pension accounting policy changes not anticipated in original Estimates (Note 30)	368		
Surplus (deficit) for the year compared to original Estimates total	**(1,278)**	**1,498**	**40**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 2001

	In Millions			
	2001			2000
	Receipts $	Disbursements $	Net $	Net $
Operating Transactions				
Surplus for the year			1,498	40
Non–cash items included in surplus:				
Amortization of tangible capital assets			521	492
Amortization of prepaid capital advances			363	337
Amortization of public debt deferred revenues and deferred charges			30	38
Concessionary loan adjustments increases (decreases)			1	(2)
Valuation adjustments			52	392
Net earnings of self–supported Crown corporations and agencies			(1,725)	(1,295)
Unfunded pension liability (decreases)			(576)	(340)
Transfer of highways to municipalities				10
Accounts receivable (increases)			(432)	(321)
Due from other governments decreases			44	15
Due from self–supported Crown corporations and agencies (increases)			(5)	(16)
Accounts payable increases			131	266
Due to other governments (decreases)			(16)	(41)
Due to Crown corporations, agencies and funds increases (decreases)			(11)	15
Items applicable to future operations (decreases)			(13)	(68)
Contributions of self–supported Crown corporations and agencies			1,567	1,485
Cash derived from operations			1,429	1,007
Investing Transactions				
Tangible capital assets—net (acquisitions)	51	1,234	(1,183)	(1,243)
Loans, advances and mortgages receivable—net (issues)	46	220	(174)	(87)
Investment in self–supported Crown corporations and agencies (increases)		24	(24)	(50)
Other investments—net decrease (increase)	47		47	(73)
Prepaid capital advances (increases)		751	(751)	(716)
Cash (used for) investments	144	2,229	(2,085)	(2,169)
Total financing (requirements)			(656)	(1,162)

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments for the Fiscal Year Ended March 31, 2001—Continued

	In Millions 2001			2000
Financing Transactions[1]	Receipts $	Disburse-ments $	Net $	Net $
Public debt increases (decreases)	17,668	18,242	(574)	2,198
Derived from (used for) Warehouse Program investments	(2,144)	(2,153)	9	(663)
Derived from loans for purchase of assets, recoverable from agencies	(5,221)	(5,426)	205	388
Cash derived from (used for) financing	10,303	10,663	(360)	1,923
Non–Cash Transactions included on the Balance Sheet[2]				
Fiscal agency loan receivable decreases			182	
Taxpayer–supported debt (increases)			(214)	
Self–supported debt decreases			32	
Assets of 552513 British Columbia Ltd.			(168)	
Liabilities of 552513 British Columbia Ltd.			194	
Equity adjustments			(25)	
			1	
Increase (decrease) in cash and temporary investments			(1,015)	761
Balance—beginning of year			1,569	808
Balance—end of year			**554**	**1,569**

[1] Financing transaction receipts are from debt issues and disbursements are for debt repayments.
[2] Includes net cash impact resulting from change in accounting for 552513 British Columbia Ltd.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Net Liabilities
as at March 31, 2001

	Note	In Millions 2001	2000
Net liabilities represented by:		$	$
Net deficiency—end of year	24	3,472	4,965
Prepaid capital advances	14	6,905	6,517
Tangible capital assets	15	10,985	10,244
Net liabilities—end of year	25	**21,362**	**21,726**
Calculation of net liabilities:			
Total assets		35,117	34,229
Prepaid capital advances		(6,905)	(6,517)
Tangible capital assets		(10,985)	(10,244)
Financial assets		17,227	17,468
Liabilities		38,589	39,194
Net liabilities—end of year		**21,362**	**21,726**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. Accountability to a minister or directly to the Legislature, for purposes of the reporting entity, does not include those entities that are part of a province-wide program yet are locally based and have an initial accountability to a local board.

The reporting entity also includes government partnerships.

A list of organizations included in these consolidated financial statements may be found on pages 61 and 62.

Trusts administered by the government or a Crown corporation or agency are excluded from the reporting entity.

(b) Principles of Consolidation

Taxpayer-supported Crown corporations and agencies are consolidated with the Consolidated Revenue Fund using the full consolidation method. The government's interests in government partnerships are recorded on a proportional consolidation basis.

Self-supported Crown corporations and agencies and government business partnerships are consolidated with the Consolidated Revenue Fund on the modified equity basis of consolidation.

The definitions of these consolidation methods can be found on page 15.

No adjustments are made for Crown corporations and agencies whose fiscal year-ends are different from the government's fiscal year-end of March 31, unless the effect of an adjustment would be significant to the consolidated operating result.

(c) Basis of Accounting

The government's Summary Financial Statements are prepared in accordance with the generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, with the following exceptions:

(i) Reporting entity—PSAB recommends that the reporting entity comprise all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, or local government council, and are owned or controlled by the government. The government does not include schools, universities, colleges and institutes, and health care organizations (SUCH sector) in its reporting entity; it is the government's position that these entities are directly accountable to independent bodies

(ii) Prepaid capital advances—PSAB recommends that government transfers be expensed in a government's financial statements in the period that the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria are met and a reasonable estimate of the amount can be made. Transfers to schools, universities, colleges and institutes, and health care organizations that are for the acquisition of tangible capital assets are not expensed in the year they are issued; rather, they are treated as a prepaid expense and amortized over the life of the tangible capital assets acquired with the advances

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

1. Significant Accounting Policies—Continued

(iii) Expense basis of accounting—PSAB recommends that when a government reports expenses and tangible capital assets in its financial statements, tangible capital assets should be reported as a component of net liabilities (as shown in the Statement of Net Liabilities, *see* page 29). In addition, the Statement of Operations should provide a reconciliation of the expense–based surplus or deficit to the change in net liabilities. The government reports tangible capital assets directly on its Balance Sheet; they are included in total assets in calculating the "net equity". The Statement of Operations is prepared on the expense basis, but is not returned to the expenditure basis of accounting to provide a reconciliation of the change in net liabilities. The Statement of Net Liabilities provides a reconciliation of the change in net liabilities to the annual operating result.

The following table provides the impact to the province's financial statements if the accounting policies were changed to conform to PSAB.

	In Millions					
	Assets	Liabilities	Net Equity	Revenue	Expense	Surplus
	$	$	$	$	$	$
Inclusion of SUCH sector and expensing prepaid capital advances	5,259	2,426	2,833	1,874	1,776	98
Change from expense to expenditure basis of accounting	(20,511)		(20,511)		1,239	(1,239)
Increase (decrease)	**(15,252)**	**2,426**	**(17,678)**	**1,874**	**3,015**	**(1,141)**

(d) SPECIFIC ACCOUNTING POLICIES

Revenue

All revenue is recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exception is corporation income tax, which is recorded on a cash basis.

Government transfers are recognized as revenues in the period during which the transfer is authorized and any eligibility criteria are met.

Tax credits/offsets are accrued on the same basis as the associated tax revenues and reduce gross taxation revenue but are not considered valuation allowances.

Expenses

The cost of all goods and services received during the year is recorded as expenses.

Interest expense is recorded net of sinking fund earnings.

Pension expense is calculated as the cost of pension benefits earned by employees during the year, interest on the pension benefits liability net of pension plan assets and amortization of the government's share of any experience gains or losses, less contributions made by employees and other employers. The estimated total cost of the government's share of the plan amendments related to past service is expensed in the year the plan is amended.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

1. Significant Accounting Policies—Continued

Major types of government transfers include grants and contributions. Government transfers are recognized as expenses in the period during which the transfer is authorized and any eligibility criteria are met. This excludes transfers that meet the criteria for a prepaid capital advance. Present value discounts for concessionary loans are expensed as the loan is issued.

Acquisitions of tangible capital assets and prepaid capital advances are recorded as assets and the cost is amortized over the useful life of the relevant tangible capital asset. Tangible capital assets not related to a capitalized class of assets are expensed in the year of acquisition.

Assets

Assets are recorded to the extent that they represent cash and claims upon outside parties, items held for resale to outside parties, a prepaid expense, deferred charge, prepaid capital advances or tangible capital assets acquired as a result of events and transactions prior to the year-end.

Financial Assets

Temporary and Warehouse Program investments include short-term investments recorded at the lower of cost or market value.

Inventories include property which has been purchased, or for which development costs have been incurred, that is held for ultimate resale or lease to outside parties. Inventories are recorded at the lower of cost or net realizable value.

Equity in self-supported Crown corporations and agencies represents the government's investment (including long-term advances) in those self-supported Crown corporations and agencies at cost, adjusted for increases and decreases in the investees' net assets.

Loans and advances are recorded at cost less adjustment for any prolonged impairment in value. Mortgages receivable are recorded at the principal amount less valuation allowance, are secured by real estate and are repayable over periods ranging up to thirty years. Concessionary loans and mortgages are recorded at net present value at issue. Valuation allowances are made when collectibility is considered doubtful.

Other investments are recorded at cost of acquisition (which may be adjusted by attributed income), or estimated current value. Valuation adjustments are made when the value of investments is impaired.

Loans recoverable from agencies are recorded at maturity value less unamortized premium / discount and sinking fund balances. Premium / discount is amortized on a constant yield basis.

Prepaid Capital Advances

Prepaid capital advances are provided to school districts, post-secondary educational institutions, health organizations and other specified government organizations to fund capital asset acquisitions. The province has an on-going claim on the assets of these organizations. Prepaid capital advances are amortized over the useful life of the assets funded.

Tangible Capital Assets

All significant tangible capital assets of government organizations and operations have been capitalized with the exception of certain land that is not associated with a capitalized class of asset. Non-capitalized tangible capital assets are recorded at the nominal value of $1.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

1. Significant Accounting Policies—Continued

Gains arising from the initial valuation and capitalization of the existing tangible capital assets are accounted for as a component of accumulated equity.

Tangible capital assets are recorded at historical cost. Estimated cost is used to record existing tangible capital assets when actual cost is unknown. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight-line basis except for some transportation equipment which is amortized using the sinking fund method.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year-end, including probable losses on loan guarantees issued by the government, contingent liabilities when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis, and unfunded pension liabilities.

Unfunded Pension Liabilities

Unfunded pension liabilities represent the unfunded portion of pensions to be provided to public sector employees. The percentage of the unfunded portion of certain statutory pension plans, which are funded by the province, is included. The amount is calculated using the accrued benefit actuarial cost method.

Changes in the unfunded liability for pension plans which arise as a result of estimation adjustments due to experience gains or losses and changes in actuarial assumptions are amortized over the expected average remaining service life of the related employee group. Gains or losses arising as a result of plan amendments are recognized in full in the year of amendment.

Public Debt

Public debt represents the direct debt obligations of the Province of British Columbia, including borrowings incurred for government operating purposes, the acquisition of capital assets, for re-lending to authorized government bodies and for borrowings in advance of future requirements under the Warehouse Program. Public debt consists of short-term promissory notes, notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount and sinking fund balances where applicable. Public debt is reported under two categories: (1) taxpayer-supported, and (2) self-supported.

(1) Taxpayer-supported debt includes direct debt used for government operating and capital purposes, and the debt of Crown corporations and agencies that requires an operating or debt servicing subsidy from the provincial government or which are fully consolidated within these financial statements.

(2) Self-supported debt includes the debt of commercial Crown corporations and agencies that fully fund their operations and debt from revenue generated through the sale of goods and/or services at commercial rates to buyers that are outside the government reporting entity. Self-supported debt includes debt of the Warehouse Program.

Debt premium/discount is amortized on a constant yield basis. Unamortized premium/discount on bonds called and refinanced is amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

1. Significant Accounting Policies—Continued

When it has been determined that there are sufficient securities to satisfy scheduled interest and principal payments for a debt instrument, the sinking fund assets are set aside in a defeased trust account. The debt and the related securities used to extinguish the debt are removed from the province's Balance Sheet. The debt is considered extinguished for financial reporting purposes.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year–end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long–term, fixed–term monetary assets and liabilities are reported as deferred charges and amortized over the remaining terms of the related items on a straight–line basis. Non–monetary assets and liabilities are translated at historical rates of exchange.

Derivative Financial Instruments

The province is a party to financial instruments with off–balance sheet risk due to fluctuations in foreign currency exchange rates, interest rate fluctuations and counterparty default on financial obligations. The province does not use derivative financial instruments for speculative purposes. Off–balance sheet position data is given in the form of nominal principal amounts outstanding. Amounts paid and received under swaps are recognized and offset against the related interest expense. Gains and losses on terminated derivative contracts are deferred and amortized over the lesser of the remaining term of the contract or the related debt.

(e) CHANGE IN ACCOUNTING TREATMENT

Employee Post–Employment Benefits

Employees are entitled to retirement allowances as provided for under the collective agreement and terms of employment. In 2000/01, the government changed its accounting treatment to accrue this type of post-employment benefit. The estimated costs for this benefit is recorded as the employees render the services necessary to earn them. This change, made retroactively, has the effect of increasing liabilities at April 1, 2000, by $45 million and decreasing 1999/00 surplus by $5 million.

Full Consolidation of 552513 British Columbia Ltd.

There has been a change in accounting treatment for 552513 British Columbia Ltd. (majority shareholder of Skeena Cellulose Inc.). The company continues to be dependent upon government subsidies and does not anticipate being able to meet the criteria for a self–supported organization for the next year. Accordingly, in fiscal year 2000/01, the government classified 552513 British Columbia Ltd. as a taxpayer–supported entity and it is now recorded in these statements on a full consolidation rather than the modified equity basis. Through ownership of 552513 British Columbia Ltd., the government owns 71% of the shares of Skeena Cellulose Inc. The government's interest in Skeena Cellulose Inc. is consolidated proportionally in these statements. There has been no default on amounts owed to the province for loans it has issued that will be repaid through the minority interest share of Skeena Cellulose Inc.; therefore, these have been left as loans receivable. Since this change is not considered a change in accounting policy, comparative figures were not restated. This change resulted in an increase for 2000/01 in: assets $221 million; liabilities $239 million; net deficiency $18 million; total revenue $290 million; total expenses $288 million; and equity in government enterprises $59 million.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

2. Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty in these financial statements exists in the accruals for pension obligations, Canada Health and Social Transfer (CHST) and personal income tax.

The nature of the uncertainty in the accruals for pension obligations arises because actual results may differ significantly from the province's best estimates of expected results based on variables such as earnings on pension investments and life expectancy of claimants. Uncertainty related to the accrual for CHST and personal income tax arises because of the possible differences between the estimated and actual economic growth and related impact on taxes receivable.

British Columbia Hydro and Power Authority (BC Hydro), a wholly owned self–supported Crown corporation, is directly exposed to counterparty credit risk as a result of the purchase and sale of electricity and natural gas. The rapid rise of wholesale power prices and in–state supply shortages have caused significant financial hardship for a number of utilities in California. A number have accumulated large losses and defaulted on payments. As a result, BC Hydro has not recognized as revenue some amounts owed to it from sales to these utilities and has recorded provisions for uncollectible amounts, which, in management's best estimate, are sufficient to cover any remaining exposure. Due to the instability in the California market and ongoing regulatory and legal proceedings, management cannot predict the outcome and the amount ultimately collected may differ materially from management's current estimate.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

3. Cash and Temporary Investments

	In Millions	
	2001	2000
	$	$
Cash (cheques issued in excess of funds on deposit)	(191)	279
Temporary investments[1]	745	1,290
	554	**1,569**

[1]Temporary investments consist mainly of units in the British Columbia Investment Management Corporation Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value.

4. Warehouse Program Investments

	In Millions	
	2001	2000
	$	$
Temporary investments[1]	1,312	1,330
Deferred charges		5
	1,312	1,335
Accrued interest payable		(15)
	1,312	**1,320**

[1]Temporary investments consist mainly of units in the British Columbia Investment Management Corporation Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value.

5. Accounts Receivable

	In Millions	
	2001	2000
	$	$
Taxes receivable	1,689	1,681
Trade accounts receivable	1,295	829
Accrued interest	262	270
	3,246	2,780
Provision for doubtful accounts	(444)	(427)
	2,802	**2,353**

6. Inventories

	In Millions	
	2001	2000
	$	$
Properties for resale	102	96
Small Business Forest Enterprise Program	130	135
Other	73	14
	305	**245**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

7. Due from Other Governments

	In Millions	
	2001	2000
	$	$
Government of Canada:		
Current	211	252
Long-term	1	1
Provincial governments:		
Current	2	12
Local governments:[1]		
Current	15	6
	229	**271**

[1] Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

8. Due from Self-supported Crown Corporations and Agencies

	In Millions	
	2001	2000
	$	$
British Columbia Hydro and Power Authority	372	343
British Columbia Liquor Distribution Branch	1	
British Columbia Lottery Corporation	46	74
Columbia Power Corporation	3	
	422	**417**

See page 66 for details.

9. Equity in Self-supported Crown Corporations and Agencies

	In Millions			
	2001			2000
	Investments $	Unremitted Earnings $	Total $	Total $
552513 British Columbia Ltd.[1,2]				(57)
British Columbia Hydro and Power Authority		1,691	1,691	1,514
British Columbia Railway Company	258	268	526	532
Columbia Power Corporation	276	13	289	264
Insurance Corporation of British Columbia		481	481	475
Provincial Capital Commission		14	14	14
	534	**2,467**	**3,001**	**2,742**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

9. Equity in Self–supported Crown Corporations and Agencies—Continued

Change in Equity in Self–supported Crown Corporations and Agencies	In Millions 2001 Investments $	Unremitted Earnings $	Total $	2000 Total $
Balance—beginning of year	510	2,232	2,742	2,885
Increase in investment	24		24	50
Net earnings of self–supported Crown corporations and agencies		1,725	1,725	1,295
Contributions paid to the Consolidated Revenue Fund		(1,431)	(1,431)	(1,376)
Adjustments to contributions paid		(136)	(136)	(109)
Adjustments to unremitted earnings		20	20	(3)
Transfer to consolidated entity[2]		57	57	
Balance—end of year	**534**	**2,467**	**3,001**	**2,742**

[1]This company owns shares in Skeena Cellulose Inc.
[2]552513 British Columbia Ltd. no longer meets the criteria of a self–supported Crown corporation and is no longer consolidated using the modified equity basis. It is fully consolidated in the 2000/01 Summary Financial Statements.

See pages 66 and 67 for details.

10. Loans, Advances and Mortgages Receivable

	In Millions 2001 $	2000 $
Loans and advances		
BC Student loans	128	65
Industrial Development Fund commercial loans	140	130
Land Tax Deferment loans	133	123
Construction loans to social housing projects	80	47
Capital expansion loans	35	
Accountable advances	21	15
Other (under $20 million)	108	91
	645	471
Provision for doubtful accounts	(123)	(115)
	522	356
Mortgages Receivable		
Other (under $20 million)	60	37
	60	37
Provision for doubtful accounts	(8)	(11)
	52	26
	574	**382**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

10. Loans, Advances and Mortgages Receivable—Continued

The BC Student Loan program provides loans to students for higher education. Students are required to repay these loans, through a contracted service provider, to the province over a maximum of 174 months with a floating interest rate of prime plus 2.5%. Defaulted loans are due on demand with interest at a floating rate of prime plus 2.5%. The program also administers defaulted student loans issued by financial institutions under a risk sharing agreement with the province. Defaulted risk sharing loans arise due to bankruptcy or death of the student while attending school.

The Industrial Development Fund provides loans to assist the establishment of new industry, the introduction of new technology to existing industry, or the development of a region of British Columbia. These loans incur interest at rates ranging from 0% to 10.05%, and must not exceed $600 million in total.

The Land Tax Deferment program allows eligible individuals to defer payment of all, or a portion of, annual property taxes due on residences. Eligible individuals are either 60 years or older, a surviving spouse or a disabled person. Simple interest is charged on the deferred taxes at a rate set semi-annually by the Ministry of Finance and Corporate Relations This rate is generally 2.0% below the prime rate. The deferred taxes plus any outstanding interest must be repaid when the residence is transferred to a new owner.

Construction loans are provided by BC Housing Management Commission (BCHMC), a taxpayer-supported Crown corporation, and an approved lender under the *National Housing Act*. BCHMC provides construction loans for societies that are building approved projects under social housing programs. Interest is payable at the province's weighted average borrowing rate for short-term funds, plus administration costs. Loans are repaid at substantial completion of each project from financing arranged with private lenders.

Capital expansion loans are made to taxpayer-supported Crown corporations and agencies for plant expansion.

Accountable advances have been issued by taxpayer-supported Crown corporations and agencies. These advances represent funds issued for program costs, which have not yet been expended in accordance with the applicable agreements.

Other includes loans and advances which are each under $20 million.

Mortgages receivable have terms ranging from 2.5 to 20.0 years, with interest rates ranging from 4.00% to 9.58%. They include zero interest or deferred payment loans issued under the Reconstruction Program to assist owners of water-damaged homes.

11. Other Investments

	In Millions	
	2001	2000
	$	$
Government of Canada bonds	17	25
Provincial government bonds	40	35
Commercial loans and investments	111	121
Pooled Investment Portfolios	93	80
Investment in Western Star Trucks Holdings Ltd		60
Banker's acceptances, investments and deposits of Columbia Basin Trust	56	46
Pooled and managed investment funds of Forest Renewal BC	32	24
Other (under $20 million)	29	34
	378	425
Provision for doubtful accounts	(126)	(126)
	252	**299**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

11. Other Investments—Continued

Government of Canada bonds have a market value of $17.9 million (par value $16.0 million), with yields ranging from 4.599% to 4.789%. Maturity dates range from April 1, 2002 to February 1, 2003.

Provincial bonds of various provinces have a market value of $42.7 million (par value $38.1 million), with yields ranging from 4.671% to 5.971%. Maturity dates range from August 29, 2001 to July 22, 2013.

Commercial loans and investments are recorded at lower of cost of acquisition adjusted by attributed income and market value.

Pooled investment portfolios consist of units in the British Columbia Investment Management Corporation's BC Focus Fund and Illiquid Fund. These Funds investments consist primarily of debt and equity holdings of privately held companies.

Bankers acceptances and deposits held by Columbia Basin Trust have maturities of one to five years, with 80% of the holdings maturing within one year. Deposit holdings are not marketable, but Columbia Basin Trust may, on ninety days written notice, redeem up to 10% of deposits initially made for a period of one year or longer, without cost or penalty, provided that such redemption occurs only once during a particular deposit's term.

Investments held by Forest Renewal BC include a $10 million pooled investment fund deposit, a $20 million managed investment fund deposit, and a $2 million specialty fund deposit. The pooled investment fund deposit is to provide loan assistance for infrastructure projects, and is held by the Municipal Finance Authority. Interest is paid quarterly at a rate of 5.51%. The deposit is repayable March 31, 2008. The managed investment fund deposits are repayable March 15, 2029 to March 31, 2031. Income earned on these deposits up to specified maximums can be used by certain universities for endowment program expenditures. The specialty fund deposit is held with Provincial Treasury. Income earned in the fund will be used by the BC Wood Specialties Group, starting in 2004. The fund was established March 29, 2001, and continues until March 31, 2024.

12. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	2001	2000
	$	$
552513 British Columbia Ltd.[1]		31
British Columbia Hydro and Power Authority	6,703	6,753
British Columbia Railway Company	584	606
Columbia Power Corporation	20	
Improvement districts	6	4
Oak Bay Lodge		1
Pacific Racing Association	5	5
Post–secondary educational institutions	124	130
	7,442	7,530
Provision for doubtful accounts	(5)	
	7,437	**7,530**

[1] This company owns shares in Skeena Cellulose Inc.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

13. Other Assets

	In Millions 2001	2000
	$	$
Prepaid program costs[1]	118	81
Deferred debt instrument costs	146	196
Deferred treaty costs	28	32
Other deferred costs	47	31
	339	**340**

[1] Includes inventories of operating material held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year.

14. Prepaid Capital Advances

	In Millions 2001	2000
	$	$
Health facilities	2,666	2,301
Post-secondary educational institutions	2,218	2,178
Schools	5,926	5,579
	10,810	10,058
Accumulated amortization	(3,905)	(3,541)
	6,905	**6,517**

15. Tangible Capital Assets

	In Millions 2001 Net Book Value $	2000 Net Book Value $
Land	653	600
Buildings	1,132	1,123
Highway infrastructure	6,143	5,872
Ferries and related infrastructure	588	620
Transportation equipment	1,932	1,613
Computer hardware and software	279	267
Other	258	149
	10,985	**10,244**

See Statement of Tangible Capital Assets on page 68.

The estimated useful lives of the more common tangible capital assets are: buildings (10–50 years); highway infrastructure (15–40 years); ferries and related infrastructure (5–40 years); transportation equipment (5–40 years); computer hardware and software (3–5 years); and other (including vehicles, specialized equipment, and furniture and equipment) (5–20 years). Tenant improvements (included in buildings) are amortized over 5 years or the length of the relevant lease term.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

16. Accounts Payable and Accrued Liabilities

	In Millions	
	2001	2000
	$	$
Trade accounts payable and other liabilities	1,532	1,348
Accrued interest on debt	824	820
Accrued employee leave entitlements	238	222
Other accrued estimated liabilities[1]	525	534
	3,119	**2,924**

[1]Includes pending litigation, provision for guaranteed debt payout and other miscellaneous accrued claims.

17. Due to Other Governments

	In Millions	
	2001	2000
	$	$
Government of Canada:		
Current	57	46
Provincial governments:		
Current	12	8
Local governments:[1]		
Current	9	29
Long-term	26	20
	104	**103**

[1]Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

18. Due to Crown Corporations, Agencies and Funds

	In Millions	
	2001	2000
	$	$
British Columbia Liquor Distribution Branch		7
Health care organizations		13
Post-secondary educational institutions	2	2
Trust funds	69	60
	71	**82**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

19. Deferred Revenue

	In Millions	
	2001	2000
	$	$
Medical Services Plan premiums	54	58
Motor vehicle licences and permits	160	157
Petroleum, natural gas and minerals, leases and fees	29	27
Water rentals and recording fees	82	83
Derivative debt instruments	1	12
Unearned lease revenue	95	92
Federal and municipal highway project revenues	33	13
Miscellaneous	126	85
	580	**527**

20. Unfunded Pension Liabilities

	In Millions	
	2001	2000
	$	$
Public Service Pension Plan		124
Members of the Legislative Assembly Superannuation Plan	13	7
Municipal Superannuation Plan	149	357
Teachers' Pension Plan	1,315	1,565
	1,477	**2,053**

The province contributes to defined benefit pension plans for substantially all its employees and for Members of the Legislature. The plans provide pensions based on length of service and final average earnings. They do not provide for inflation protection other than that set aside in special inflation accounts. The government's contributions to pensioners post–retirement group benefits are also made to these accounts and are expensed in the year they occur.

The Public Service Pension Plan and the College Pension Plan are joint trusteeship plans in which control of the pension plans and their assets are assumed by a pension board made up of government and plan member representatives. Under these agreements, the government has no formal claim on pension plan surpluses and is liable for only 50% of any resulting unfunded liabilities. Subsequent to the fiscal year end, on April 5, 2001, joint trusteeship agreements were entered into for both the Municipal Superannuation Plan and the Teachers' Pension Plan. The future accounting of these plans is described in Note 33 of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

20. Unfunded Pension Liabilities—Continued

The unfunded pension liability for each plan consists of the accrued benefit obligation less the pension fund assets and any unamortized estimation adjustments and provisions, as follows:

	In Millions					
	Public Service Pension Plan	Members of Legislative Assembly Superannuation Plan	Municipal Superannuation Plan	Teachers' Pension Plan	College Pension Plan	Total
	$	$	$	$	$	$
Accrued benefit obligation	7,376		9,919	8,576	700	26,571
Pension fund assets	8,495		10,254	8,217	897	27,863
	(1,119)		(335)	359	(197)	(1,292)
Unamortized estimation adjustments		13	547	956		1,516
Accrued liability (asset)	(1,119)	13	212	1,315	(197)	224
Provincial share	(559)	13	149	1,315	(98)	820
Valuation allowance	559				98	657
Balance Sheet total	**0**	**13**	**149**	**1,315**	**0**	**1,477**

The accrued benefit obligations and pension assets shown for 2000/01 are based on extrapolations of the most recent actuarial reports as follows: Public Service Pension Plan: March 31, 1999; Municipal Superannuation Plan: December 31, 1997; Teachers' Pension Plan: December 31, 1999; and College Pension Plan: August 31, 1997. Actuarial valuations are performed every three years for all plans except the Members of the Legislative Assembly Superannuation Plan. Reported balances are derived from the estimated benefit obligations less the estimated assets of the funds. The estimation adjustments resulting from fund performance changes experienced in the periodic actuarial reports are amortized on a straight-line basis over the expected average remaining service life of the related employee groups (10.5 to 10.7 years for the Municipal Superannuation Plan; 12.5 to 12.66 years for the Teachers' Pension Plan). Because the Public Service Pension Plan's and the College Pension Plan's assets are based on initial actuarial valuations at the time they became joint trusteeship plans, there are no unamortized estimation adjustments as at March 31, 2001, for either plan. The reported balance sheet totals for the Public Service Pension Plan and the College Pension Plan are effected by the joint trusteeship agreements. Under these agreements, the province's share of the accrued liability or asset is 50%. However, since the government has no formal claim on accrued asset amounts until such time as they are applied to employer purposes by the trustees, a valuation allowance has been provided to write down the value of the asset to its net realizable value at the balance sheet date. The reported balance sheet total for the Municipal Superannuation Plan is based on the province's share (70%) of the accrued liability balance.

Actuarial valuations for accounting purposes are performed triennially on all plans except the Members of the Legislative Assembly Superannuation Plan, using the projected benefit method pro-rated on services. The assumptions used in the valuations were based on the government's estimates of expected long-term rates and short-term forecasts. Each plan's future experience will inevitably vary from the assumptions. Differences between the actuarial assumptions and future experience will emerge as gains or losses, estimation adjustments, in future valuations.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

20. Unfunded Pension Liabilities—Continued

Key actuarial assumptions used in the valuations include a long-term annual rate of return on pension fund assets of 7.30% for the Public Service Pension Plan, 7.25% for the Municipal Pension Plan, 7.50% for the Teachers Pension Plan, and 7.10% for the College Pension Plan, and long-term annual salary increases of 4.80% for the Public Service Pension Plan, 4.75% for the Municipal Pension Plan, 5.00% for the Teachers Pension Plan, and 4.60% for the College Pension Plan.

A separate pension fund is maintained for each pension plan except for the Members of the Legislative Assembly Superannuation Plan. Pension plan fund assets consist primarily of direct ownership in units of pooled investment portfolios, managed by the British Columbia Investment Management Corporation under the general management of the British Columbia Pension Corporation.

The total pension-related expense consists of the following components:

	In Millions	
	2001	2000
	$	$
Current period benefit cost	551	508
Prior period cost of plan amendment		142
Amortization of estimation adjustments	(270)	(217)
Employee/employer contributions	(790)	(720)
Expected interest on accrued benefit asset	(90)	(85)
Expected interest on accrued benefit liability	41	95
Valuation allowance—accrued benefit asset	657	
	99	**(277)**

The following tables provide a detailed breakdown of the total pension-related expenses by pension plan:

	In Millions	
	2001	2000
Public Service Pension Plan	$	$
Current period benefit cost	149	171
Prior period cost of plan amendment		142
Amortization of estimation adjustments	(104)	(138)
Employee/employer contributions	(95)	(117)
Expected interest on accrued benefit asset	(66)	(74)
Valuation allowance—accrued benefit asset	559	
	443	**(16)**

	In Millions	
	2001	2000
Members of the Legislative Assembly Superannuation Plan	$	$
Current period benefit cost	**6**	**0**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

20. Unfunded Pension Liabilities—Continued

	In Millions	
	2001	2000
Municipal Superannuation Plan	**$**	**$**
Current period benefit cost	167	167
Amortization of estimation adjustments	(51)	(51)
Employee/employer contributions	(314)	(314)
Expected interest on accrued benefit asset	(11)	
	(209)	**(198)**

	In Millions	
	2001	2000
Teachers, Pension Plan	**$**	**$**
Current period benefit cost	207	148
Amortization of estimation adjustments	(115)	(28)
Employee/employer contributions	(381)	(289)
Expected interest on accrued benefit liability	41	95
	(248)	**(74)**

	In Millions	
	2001	2000
College Pension Plan	**$**	**$**
Current period benefit cost	22	22
Expected interest on accrued benefit asset	(13)	(11)
Valuation allowance—accrued benefit asset	98	
	107	**11**

The audited financial statements of each pension plan listed, along with full descriptions, benefit formulas, inflation assumptions and funding policies, are published on the British Columbia Pension Corporation web site.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

21. Taxpayer–Supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2001 Canadian Dollar Total	2000 Canadian Dollar Total
Short–term promissory notes	2001						1,158
	2002	786	41			827	
Notes, bonds and debentures[3]	2001						2,026
	2002	1,894			197	2,091	2,006
	2003	1,049	1,200			2,249	2,185
	2004	1,391			410	1,801	1,755
	2005	1,110	100		585	1,795	1,607
	2006	1,785				1,785	1,986
	2006–2011	4,910	1,202	262	1,203	7,577	6,604
	2011–2016	3,803	155			3,958	4,008
	2016–2021	528				528	379
	2021–2026	2,260				2,260	2,260
	2026–2031	2,810				2,810	2,410
	2031–2036	486				486	
	2036–2041	365				365	365
Total debt issued at face value		**23,177**	**2,698**	**262**	**2,395**	28,532	28,749
Sinking funds[4]						(3,761)	(3,840)
Unamortized discount						(134)	(113)
Amount held in the Consolidated Revenue Fund						(18)	(2)
Total taxpayer–supported debt						**24,619**	**24,794**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2001	7.08
2000	7.30

[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 23 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include: $1,804 million US ($2,698 million Canadian); 22,000 million Japanese yen ($262 million Canadian); 191 million Pound Sterling ($409 million Canadian); 800 million Swiss Francs ($782 million Canadian); 703 million Deutsche Mark ($576 million Canadian); and 2,500 million French Francs ($628 million Canadian).

[3] Notes, bonds and debentures include bank loans, capital leases and mortgages payable.

[4] Sinking fund balances include assets totalling $109 million (2000: $83 million) invested in the Matched Book Program and assets totalling $3,652 million (2000: $3,757 million) set aside for orderly repayment of debt. Sinking funds at March 31, 2001, totalling $140 million US (2000: $131 million US) act as a natural hedge of the US dollar debentures.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

21. Taxpayer–Supported Debt[1]—Continued

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $3,409 million (2000: $3,339 million) at a weighted average interest rate of 10.93% (2000: 11.17%). These debentures mature at various dates from April 10, 2001 to October 10, 2020, with interest rates varying between 5.61% and 17.51%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, $149 million in Canada Pension Plan debentures were issued. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two–thirds of the provinces.

Balances include 5.40% debentures, due December 4, 2026, totalling $40 million (2000: $40 million). The holders have a put option which, if exercised, would result in the bond maturing on December 4, 2002. If the option is not exercised, the bond will be redeemed for $50 million (2000: $50 million) on December 4, 2026, and the coupon rate on the bond will be 7.00% for the period December 5, 2002 to December 4, 2026.

Balances include 5.45% debentures, due August 17, 2028, totalling $200 million (2000: $200 million). The holders have a put option which, if exercised, would result in the bond maturing on August 17, 2005. If the option is not exercised, the debenture will mature on August 17, 2028, and the effective rate on the bond will be 5.62% for the period August 17, 2005 to August 17, 2028.

Balances include 5.86% debentures due June 18, 2029, totalling $250 million (2000: $250 million). The holders have a put option which, if exercised, would result in the bond maturing on June 19, 2006. If the option is not exercised, the debenture will mature on June 18, 2029.

Balances include British Columbia Savings Bonds totalling $702 million (2000: $930 million) maturing at dates from October 15, 2001 to October 15, 2007, and with an effective rate of 5.60% are redeemable at par by the holder each April 15 and October 15 prior to maturity.

Redeemable by the province

Issues totalling $210 million (2000: $210 million) with effective rates ranging from 4.56% to 5.21% are redeemable at par at the province's option on dates ranging from June 14, 2001 to December 14, 2010.

Defeasances

At March 31, 2001, sufficient securities had been set aside in an irrevocable trust to satisfy the scheduled interest and principal payment requirements of $1,114 million (2000: $1,313 million). The related debt is considered extinguished for financial reporting purposes.

Aggregate payments for the next five years to meet sinking fund and retirement provisions are:

	In Millions Canadian Dollar
2002	1,588
2003	1,767
2004	1,288
2005	1,502
2006	1,580

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

22. Self-Supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2001 Canadian Dollar Total	2000 Canadian Dollar Total
Short-term promissory notes	2001						1,770
	2002	35	1,307			1,342	
Notes, bonds and debentures[3]	2001						125
	2002	404				404	404
	2003		442			442	407
	2004	300	315			615	591
	2005	388	263	135		786	886
	2006	356				356	306
	2006–2011	1,663	200		150	2,013	1,685
	2011–2016	500				500	400
	2016–2021	600				600	600
	2021–2026	696	789			1,485	1,423
	2026–2031	250				250	650
	2031–2036	414				414	
	2036–2041	50	473			523	486
Total debt issued at face value		**5,656**	**3,789**	**135**	**150**	9,730	9,733
Sinking funds[4]						(1,089)	(923)
Unamortized discount						(22)	(99)
Total self-supported debt						**8,619**	**8,711**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2001	7.04
2000	6.92

[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 23 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include: $2,434 million US ($3,789 million Canadian); 10,000 million Japanese yen ($135 million Canadian); 637 million French Francs ($150 million Canadian).

[3] Notes, bonds and debentures include bank loans, capital leases and mortgages payable.

[4] Sinking funds at March 31, 2001, totalling $436 million US (2000: $401 million US) act as a natural hedge of the US dollar debentures and short-term promissory notes.

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $341 million (2000: $341 million) at a weighted average interest rate of 11.10% (2000: 11.10%). These debentures mature at various dates from July 10, 2004 to June 9, 2009, with interest rates varying between 9.62% and 14.06%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, no Canada Pension Plan debentures were issued for self-supported debt. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

22. Self-Supported Debt[1]—Continued

Balances include a $200 million US (2000: $200 million US) note with an effective rate of 5.68% maturing January 15, 2004. This note was translated at the exchange rate prevailing at year-end. The bond holder or the issuer may redeem the note on any interest payment date on thirty days' notice.

Aggregate payments for the next five fiscal years to meet sinking fund and retirement provisions are:

	In Millions Canadian Dollar
2002	413
2003	448
2004	573
2005	748
2006	345

23. Risk Management and Derivative Financial Instruments

The province borrows funds in both domestic and foreign capital markets, and manages its existing debt portfolio to achieve the lowest debt costs within specified risk parameters. As a result, the province is exposed to risks associated with interest rate fluctuations and foreign exchange rate fluctuations. In accordance with risk management policy guidelines set by the Risk Committee of the Ministry of Finance and Corporate Relations, the province uses a variety of derivative financial instruments to hedge exposure to these risks.

Derivatives used by the province include interest rate swaps, cross-currency swaps, forward foreign exchange contracts, forward rate agreements, and options. A derivative instrument is a financial contract with a financial institution or counterparty which is applied to effect a hedge on interest rate or foreign exchange exposure contained in the underlying provincial debt instrument. A derivative derives value from the impact of market changes on the underlying hedged debt instrument. All derivative instruments entered into by the province are recorded off-balance sheet, which is consistent with the Canadian Institute of Chartered Accountants' accounting guidelines for non-speculative hedge instruments.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

23. Risk Management and Derivative Financial Instruments—Continued

The following tables present maturity schedules of the province's derivatives, by type, outstanding at March 31, 2001, based on the notional amounts of the contracts:

Taxpayer–supported Debt

	In Millions			
Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Total
2002	197	100	41	338
2003	234	515		749
2004	410	6		416
2005	685	95		780
2006		270		270
6–10 years	3,089	2,328		5,417
Over 10 years	218	1,114		1,332
Total	**4,833**	**4,428**	**41**	**9,302**

Self–supported Debt

	In Millions			
Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Total
2002		300		300
2003		563		563
2004				
2005	467			467
2006		284		284
6–10 years	350	150		500
Over 10 years				
Total	**817**	**1,297**	**0**	**2,114**

Interest rate risk

Interest rate risk is the risk that the province's debt servicing costs will fluctuate due to changes in interest rates. The province uses derivative contracts to manage interest rate risk by exchanging a series of interest payments, and assuming either a fixed or floating rate liability to a counterparty, based on the notional principal amount. Derivatives allow the province to alter the proportion of its debt held in fixed and floating rate form to take advantage of changes in interest rates.

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, allow floating rate debt exposure up to 45.00% of debt. At March 31, 2001, floating rate debt exposure was 36.60% (2000: 35.56%) of debt.

Under current policy guidelines for British Columbia Hydro and Power Authority (BC Hydro), the maximum floating rate debt exposure is 35.00% of debt. At March 31, 2001, floating rate debt exposure for BC Hydro was 19.00% (2000: 29.50%) of debt.

A 1.00% increase in interest rates would result in an increase in the debt servicing expense of $71 million for taxpayer–supported debt and $21 million for self–supported debt.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

23. Risk Management and Derivative Financial Instruments—Continued

Foreign exchange risk

Foreign exchange risk is the risk that the province's debt servicing costs and principal payments will fluctuate due to changes in foreign exchange rates. The province uses derivative contracts to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows. Within specified limits set by policy, the province and provincial corporations may assume only unhedged exposure to US dollars and Japanese yen.

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, allow unhedged foreign debt exposure up to 10.00% of debt. At March 31, 2001, unhedged foreign debt exposure, in US dollars and Japanese yen, was 7.52% (2000: 7.46%) of debt.

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 44.00% of debt. At March 31, 2001, 38.60% (2000: 34.70%) of debt was in the form of unhedged foreign debt in US dollars.

A one cent decrease in the Canadian dollar versus the US dollar would result in an increase in the debt servicing expense of $13 million for taxpayer–supported debt and $10 million for self–supported debt. A decrease in the value of the Canadian dollar of one yen would result in an increase to debt servicing expenses of $1 million for taxpayer–supported debt.

Credit risk

Credit risk is the risk that the province will incur financial loss due to a counterparty defaulting on its financial obligation to the province. In accordance with the government's policy guidelines, credit risk is reduced by dealing with only highly rated counterparties. The province only enters into derivative transactions with counterparties that have a rating from Moody's Investors Service and Standard & Poor's of at least AA–/Aa3 or A+/A1 in the case of Canadian Schedule A banks. The province also establishes limits on individual counterparty credit exposures and monitors these exposures on a regular basis.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

24. Net Equity (Deficiency)

	In Millions 2001	2000
	$	$
Net equity (deficiency)—beginning of year as previously reported[1]	(4,965)	(4,992)
Adjustments made to 1999/00 net deficiency due to changes in accounting treatment:		
Capitalization of furniture and equipment[2]		31
Record liability for employee future benefits[3]		(51)
Miscellaneous adjustments[4]		10
British Columbia Railway Company accrued vacation pay adjustment[5]		(3)
Include 552513 British Columbia Ltd. as a consolidated entity[6]	(25)	
Adjustment to Insurance Corporation of British Columbia unremitted earnings[7]	20	
Net equity (deficiency)—beginning of year as restated[1]	(4,970)	(5,005)
Surplus for the year[1]	1,498	40
Net equity (deficiency)—end of year	**(3,472)**	**(4,965)**

[1] Net equity (deficiency) has been restated to apply changes in accounting treatment and correction of errors. The total impact of these changes has the effect of increasing the 1999/00 opening net deficiency by $13 million (from $4,992 million to $5,005 million) and decreasing the surplus for the year by $12 million (from $52 million to $40 million).

[2] Furniture and equipment were capitalized in 2000/01 as part of the phased-in approach to the capitalization of tangible capital assets. This change has the effect of increasing 1999/00 tangible capital assets by $24 million and decreasing the 1999/00 surplus by $7 million.

[3] In 2000/01, the Consolidated Revenue Fund and various Crown corporations changed accounting policies to accrue the estimated costs for employee future benefits as the employees render the services necessary to earn them. This change has the effect of increasing the 1999/00 accrued employee leave liability by $56 million and decreasing the 1999/00 surplus by $5 million.

[4] Miscellaneous adjustments consist of a $7 million adjustment for a prior year adjustment related to 552513 British Columbia Ltd. and a correction of an error that increases tangible capital assets by $3 million.

[5] In 2000/01, British Columbia Railway Company recorded a prior period adjustment which increased its liability for accrued vacation pay by $3 million. This entry has the effect of reducing the 1999/00 unremitted earnings by $3 million.

[6] In 2000/01, an adjustment was required to include 552513 British Columbia Ltd. as a consolidated entity.

[7] This adjustment is to record the earnings of the Insurance Corporation of British Columbia (ICBC) for the period January 1 to March 31, 1999, which has not been recorded due to a change made last year to use the April 1 to March 31 earnings of ICBC when preparing the Summary Financial Statements.

25. Net Liabilities

	In Millions 2001	2000
Change in net liabilities:	$	$
(Surplus) deficit for the year	(1,498)	(40)
Impact of prepaid capital advances	388	379
Impact of tangible capital assets	741	438
Increase (decrease) in net liabilities	(369)	777
Impact of accounting adjustment to net deficiency	5	
Net liabilities—beginning of year	21,726	20,949
Net liabilities—end of year	**21,362**	**21,726**

The net liabilities calculation uses the expenditure, rather than the expense, basis of accounting. Under the expenditure basis of accounting, prepaid capital advances and tangible capital assets are recorded as expenditures when calculating the current year surplus or deficit. Under the expense basis of accounting, prepaid capital advances and tangible capital assets are recorded on the Balance Sheet as assets and amortized over an applicable period of time.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

26. Contingencies and Commitments

(a) Guaranteed Debt

Guaranteed debt as at March 31, 2001, totalled $447 million (2000: $698 million). *See* Statement of Guaranteed Debt on page 69 for details.

(b) Contingent Liabilities

(i) Litigation and Other Claims

The government is a defendant in legal actions and is involved in matters such as expropriation compensation disputes and tax assessment appeals. These matters may give rise to future liabilities.

These potential liabilities are accrued when it is likely that a liability exists and the amount of the liability can be reasonably estimated on an individual or portfolio basis (*see* Note 16—Other accrued estimated liabilities).

The government has contingent liabilities in respect of the following summary of matters where the estimated or known claim is or exceeds $100,000 and is net of accrued amounts:

	In Millions	
	2001	2000
	$	$
Timber harvesting rights disputes	37	237
Expropriation disputes	79	62
Contract disputes	285	59
Damages to persons or property	77	29
Property access disputes	25	23
Tax disputes	10	18
Motor vehicle accidents	12	9
Negligence and miscellaneous	62	15
	587	**452**

On March 28, 1998, the federal government announced the establishment of a $1.1 billion fund to compensate Hepatitis C victims who were infected as a result of blood transfusions between 1986 and 1990. The value of the settlement includes payments of $1.1 billion plus a contingent liability of $18 million for the Red Cross and interest accrued on these balances as of April 1, 1998. The federal government will contribute $800 million and the provincial and territorial governments will contribute $300 million. A liability has been accrued based on the estimated costs of future payments for claims. The outcome of claims may exceed the accrued amount but this additional exposure cannot be determined with certainty.

(ii) Other Contingent Liabilities

The government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the guaranteed debt note above.

The government is responsible for the environmental clean up of numerous contaminated sites in the province. Based on preliminary environmental audits of some sites, a liability has been recorded based upon the minimum estimated clean up costs, where an estimate has been provided. Maximum estimated clean up costs for sites under evaluation would increase the liability by at least $90 million at March 31, 2001. Many other sites remain to be evaluated; this future liability is not determinable.

The Insurance Corporation of British Columbia (the Corporation) has settled some claims which require the Corporation to provide claimants with periodic payments, usually for a lifetime. The Corporation has purchased annuities from approved life insurance companies to make these

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

26. Contingencies and Commitments—Continued

payments. The list of approved insurance companies is determined by ongoing analysis of total assets, credit rating reports, and past service history. The gross amounts of these settlements at December 31, 2000, was approximately $498 million (December 31, 1999: $460 million). In the event a life insurance company fails in this obligation, the Corporation remains responsible to continue the payments.

The unsecured creditors of Skeena Cellulose Inc. are entitled to additional amounts of up to 10% of their claims, to a total of $10 million, if minimum wood pulp prices and company cash flow requirements are met as set out under the *Companies' Creditors Arrangement Act* Plan. The Plan states that these minimum requirements must occur in a fiscal year prior to and including 2004. These amounts have not been recognized in the Summary Financial Statements, as it is the opinion of Skeena Cellulose Inc. management that the realization of the minimum requirements is not determinable.

BC Transportation Financing Authority has contingent liabilities of $103 million remaining after deducting the estimated settlement expense currently accrued from gross claims outstanding for capital projects.

At March 31, 2001, Rapid Transit Project 2000 Ltd. (RTP2000) was reviewing various contract changes and claims relating to schedule delays. As at March 31, 2001, one legal claim in the amount of $33 million (plus damages and costs) had been filed. This claim is in dispute. RTP2000 has not accrued any costs related to these items, since the eventual outcome, and potential amount, if any, of these claims is presently indeterminable.

(iii) Aboriginal Land Claims

The absence of treaties in most of British Columbia has resulted in a number of outstanding aboriginal land claims across the province. The provincial position is that these claims should be resolved through negotiation, not litigation. Most First Nations agree that the negotiation of claims is the better way to resolve this issue.

A formal process for treaty negotiations in British Columbia has been agreed to amongst the province, Canada and the First Nations Summit. Negotiations commenced in 1994. The province anticipates that these negotiations will result in modern–day treaties defining the boundaries and nature of First Nations treaty settlement lands and rights and ensure a more stable environment for resource development in British Columbia.

The British Columbia Treaty Commission facilitates treaty negotiations under a six–stage negotiation process. As of March 31, 2001, there were 41 active treaty tables in the process representing two–thirds of the aboriginal people in British Columbia. In addition, there were three transboundary tables. The Sechelt Indian Band was in the final negotiation stage; thirty–seven tables were in the Agreement in Principle stage of negotiations, four were in the Framework Agreement stage and two were in the Readiness stage.

When final treaty agreements are ratified, the provincial cost of treaties is recorded in the Public Accounts. Costs are amortized over the same period as the period of capital transfers established in final agreements. The Nisga'a treaty was given royal assent by the federal government on April 13, 2000. The provincial cost of the Nisga'a treaty has been recorded and will be amortized over 15 years.

If a final treaty is negotiated which contains the same terms as the Sechelt Agreement in Principle, Sechelt Treaty Land would amount to approximately 1,988 hectares. The province would transfer $4.2 million in capital transfers over a number of years.

Since the Supreme Court of Canada decision on December 11, 1997 of Delgamuukw v. Her Majesty the Queen in Right of British Columbia and Attorney General of Canada there has been an increase in cases involving aboriginal rights.

The Delgamuukw case itself set out a framework for analyzing aboriginal title but did not find that the Gitxsan and Wet'suwet'en First Nations held aboriginal title. Instead, the court referred the

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

26. Contingencies and Commitments—Continued

matter back for a new trial. At this time, the Gitxsan and Wet'suwet'en have taken no steps to initiate that action.

Several First Nations have commenced litigation claiming aboriginal title over their traditional lands and/or challenging provincial approvals regarding resource extraction on those lands. These challenges are often commenced on the basis that the provincial Crown has not consulted adequately with respect to aboriginal rights or title. There are also several cases, which challenge the province's exclusive ownership of roads that traverse reserves and seek compensation for the use of those roads. The result of these actions is not determinable at this time.

(c) Commitments

The government has ongoing operational and capital commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. In addition, the government normally contracts out construction or maintenance of its roads, bridges and buildings. All these ongoing operational and capital commitments are detailed in the Estimates published yearly and are not repeated in this note. Any significant non–operating commitments (less than five years duration costing more than $50 million) and their completion costs are detailed in this note.

The Insurance Corporation of British Columbia has $120.8 million in outstanding commitments related to the Central City development, whose estimated total development cost is $209.4 million.

Arrow Lake Power Company, consolidated under the Columbia Power Corporation, entered into a turnkey, design-build contract for approximately $210 million for the construction of the ALGS Powerplant due to be completed by the end of 2001.

At the end of each year, the BC Transportation Financing Authority has a number of general commitments outstanding for ongoing infrastructure projects. The approved capital program for 2001/02 is $301.1 million.

27. Revenue

	In Millions 2001	2000
Taxation revenue includes:	$	$
Personal income	6,015	5,839
Corporation income	1,054	943
Social service	3,605	3,347
Property	1,694	1,413
Other	1,947	2,192
	14,315	**13,734**

See notes at end of the Schedule of Net Revenue by Source on page 86 for additional information on taxation revenue.

	In Millions 2001	2000
Investment earnings include:	$	$
Warehouse Program	112	79
Other	182	119
	294	**198**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

28. Expense

	In Millions	
	2001	2000
Interest expense by function:	$	$
Health	157	131
Education	460	455
Transportation	90	89
Interest	1,873	1,769
	2,580	**2,444**

	In Millions	
	2001	2000
Total expense by group account classification:	$	$
Grants and contributions	17,775	16,461
Salaries and benefits	2,436	2,351
Operating costs	2,451	2,150
Amortization	521	478
Interest[1]	1,873	1,769
Other[1]	1,233	1,345
	26,289	**24,554**

[1] For 2000/01, interest expense of $707 million (2000: $675 million) is included in Other.

29. Expense Due to Valuation Allowances

	In Millions	
	2001	2000
	$	$
Accounts receivable	23	48
Tangible capital assets	24	302
Investments		36
Inventories		6
Loans, advances and mortgages receivable	5	
	52	**392**

These amounts are included in Other in expense by group account classification in Note 28 and represent the writedown of assets in the above Balance Sheet categories.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

30. Comparison to Estimates

The expense by function Estimates numbers on the Statement of Operations are based on comparative restated Estimates amounts for 2000/01 provided in the 2001/02 Estimates presented to the Legislature in March 2001.

The following table shows the adjustments made to calculate the Estimated expense by function for fiscal 2000/01:

	In Millions			
	Restated 2000/01 Estimates[1]	Pension Expense Allocation	Eliminate 2001/02 Adjustment[2]	2000/01 Estimates
	$	$	$	$
Health	8,479	(165)	(8)	8,306
Social services	3,803	(42)		3,761
Education	6,447	(161)	(128)	6,158
Protection of persons and property	1,364	(46)		1,318
Transportation	1,520	(15)		1,505
Natural resources	1,620	(42)		1,578
Other	693	(4)		689
General government	277	(23)	(10)	244
Interest	2,003			2,003
Pension liability adjustment	(130)	130		
Pension accounting policy change[3]	(368)	368		
	25,708	**0**	**(146)**	**25,562**

[1] Restated per schedule 1 of the 2001/02 Estimates.

[2] The restated 2000/01 Estimates included a capital maintenance adjustment of $146 million so that it would be comparable to the 2001/02 Estimates. This adjustment is eliminated to return to 2000/01 Estimates.

[3] The pension expense allocation includes $368 million for the pension accounting policy change not included in the original 2000/01 Estimates. The impact is included in the estimated expense for each function to provide a proper comparison of estimated to actual but is eliminated as a bottom line adjustment on the Statement of Operations to reflect the original budgeted deficit for that fiscal year.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

31. Amounts Held in Trust and Administered by, or on behalf of, the Province[1]

	In Millions 2001	2000
	$	$
Superannuation, pension and long-term disability funds[2,3]		
—administered by the British Columbia Pension Corporation (BCPC)	42,751	40,971
Sinking funds[2,6]		
—administered by British Columbia Investment Management Corporation (BCIMC)	4,952	4,902
Defeased trust funds[4,6]		
—administered by BCIMC	1,059	1,270
Investment funds of non-consolidated entities[5]		
—administered by BCIMC	255	207
—administered by British Columbia Investment Fund Ltd.	26	25
Public Trustee and Official Administrators		
—administered by government officials	607	596
Supreme, Provincial and County Court (Suitors' Funds)		
—administered by the Courts	26	27
Workers' Compensation Board of British Columbia (WCB)[2,3,6]	8,020	7,551
Other trust funds		
—administered by various government officials	54	85
	57,750	**55,634**

[1] Pension funds under joint trusteeship agreements are included here for full disclosure (*see* Note 20).

[2] *See* the Trust Funds Financial Statements available on the BCPC's web site for the audited financial statements of superannuation and pension funds. Other financial statements are available from the WCB website and the websites of other entities whose sinking funds are administered by BCIMC.

[3] The amounts for five of the superannuation and pension funds totalling $30,256 million (2000: $28,017 million) and for the WCB (excluding the Workers' Compensation Board Superannuation Plan), have been taken from these funds' audited financial statements which have a different fiscal year-end than these financial statements.

[4] Defeased trust funds represent investments set aside to repay outstanding term debt and related interest payments. These defeased debts have been removed from the Balance Sheet of each taxpayer-supported and self-supported Crown corporation and agency and are considered extinguished for financial reporting purposes.

[5] Includes assets and liabilities not administered by BCIMC.

[6] Sinking funds include $3,759 million (2000: $3,800 million) and defeased trust funds include $830 million (2000: $1,042 million) held by BCIMC for the repayment of direct operating debt of the province.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2001—Continued

32. Workers' Compensation Board of British Columbia (WCB)

WCB administers the *Workers' Compensation Act*. Its main functions are promotion of occupational health and safety, compensation for occupational injury, death or disease, and rehabilitation of injured workers. WCB collects funds necessary for its operations from employers covered under the Act and as a trust is excluded from the government reporting entity. This is consistent with the reporting of most other provinces. The audited financial statements of WCB at December 31, 2000, reflect the following financial information: assets $8,264 million; liabilities $7,553 million; net equity $711 million; income $1,651 million; expenses $1,576 million; surplus from operations $75 million.

33. Significant Events

Joint Trusteeship Agreements for Pension Plans

Effective January 2001, the Public Service Pension Plan moved from sole responsibility of government to joint trusteeship with its present and retired employees. Under the Joint Trusteeship Agreement, the assets ($7.9 billion) and the liabilities ($6.9 billion) of the former plan were transferred to the new plan. The impact on the government's operating statement is a $52 million write-off of the net assets that had accrued up to the settlement date, December 31, 2000, under the former plan.

On April 5, 2001, joint trusteeship agreements were entered into for both the Municipal Superannuation Plan and the Teachers' Pension Plan, resulting in the control of the plans and their assets being assumed by newly constituted boards made up of government and plan member representatives. Under these new agreements, the government has no formal claim on pension plan surpluses and is liable for only 50% of any unfunded liabilities.

The settlement of the former plans will result in the early realization of past actuarial gains that exist in the plans. These gains would normally be deferred and credited to operations over a period of approximately 10–12 years, in accordance with government accounting policy. It is estimated that the early realization of these past gains will reduce the government's recorded unfunded pension liabilities in fiscal 2001/02 by $149 million for the Municipal Superannuation Plan and $1,189 million for the Teachers' Pension Plan, for a total credit to operations of $1,338 million.

Environmental Cleanup

On April 12, 2001, the government entered into an agreement to assume the costs of environmental clean up for the Britannia Mine site. These costs are estimated at $76 million, less contributions from predecessor owners of $30 million. The net estimated liability of $46 million will be recorded in fiscal 2001/02.

Change in Income Taxation Rates

On June 6, 2001, the government announced personal income tax rate reductions effective July 1, 2001 made retroactive to January 1, 2001. The reductions that affect revenue for the calendar year 2001 are: 1.1% for tax bracket 1; 1.4% for tax bracket 2; and 3% for tax brackets 3, 4, and 5. Because the decision to make this change was made subsequent to the year end, the revenue estimates included in these statements are not changed. Thus, the financial position of the government at March 31, 2001, is correctly stated based on the rates then in effect. If the rate changes had been in place before the fiscal year end, it is estimated that 2000/01 personal income tax revenue and related taxes receivable would have been reduced by $193 million, and the taxes receivable asset reduced by the same amount.

34. Comparatives

Certain of the comparative figures for the previous year have been restated to conform with the current year's presentation. These restatements have had no effect on the operating result as previously reported except as specifically noted.

Summary Financial Statements Reporting Entity for the Fiscal Year Ended March 31, 2001

TAXPAYER-SUPPORTED CROWN CORPORATIONS AND AGENCIES (GOVERNMENT ORGANIZATIONS) RECORDED ON A CONSOLIDATED BASIS

Consolidated Revenue Fund

Health Sector

B.C. Health Care Risk Management Society
British Columbia Health Research Foundation
Canadian Blood Services[1]
Forensic Psychiatric Services Commission
Health Facilities Association of British Columbia[2]

Education Sector

Industry Training and Apprenticeship Commission
Private Post-Secondary Education Commission

Natural Resources and Economic Development Sector

552513 British Columbia Ltd[3]
577315 British Columbia Ltd[4]
580440 B.C. Ltd[5]
BC Immigrant Investment Fund Ltd[6]
B.C. Games Society
B.C. Pavilion Corporation
B.C. Society for the Distribution of Gaming Revenue to Charities
British Columbia Assets and Land Corporation
British Columbia Enterprise Corporation
British Columbia Securities Commission
British Columbia Trade Development Corporation
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Discovery Enterprises Inc
Duke Point Development Limited
Fisheries Renewal BC
Forest Renewal BC
Homeowner Protection Office
Okanagan Valley Tree Fruit Authority
Oil and Gas Commission
Pacific National Exhibition
Science Council of British Columbia
Tourism British Columbia
Vancouver Trade and Convention Centre Authority

Transportation Sector

BC Transportation Financing Authority
British Columbia Ferry Corporation
British Columbia Transit
Rapid Transit Project 2000 Ltd
Victoria Line Ltd

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2001—Continued

TAXPAYER-SUPPORTED CROWN CORPORATIONS AND AGENCIES (GOVERNMENT ORGANIZATIONS) RECORDED ON A CONSOLIDATED BASIS—CONTINUED

Social Services Sector

B.C. Community Financial Services Corporation
British Columbia Housing Management Commission
Provincial Rental Housing Corporation

Other Sector

B.C. Festival of the Arts Society
British Columbia Arts Council
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Heritage Trust
British Columbia Systems Corporation[7]
First Peoples' Heritage, Language and Culture Council
Legal Services Society
Organized Crime Agency of British Columbia Society

SELF-SUPPORTED CROWN CORPORATIONS AND AGENCIES (GOVERNMENT ENTERPRISES) RECORDED ON A MODIFIED EQUITY BASIS

BCIF Management Ltd
British Columbia Hydro and Power Authority
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Railway Company
Columbia Power Corporation
Insurance Corporation of British Columbia
Provincial Capital Commission

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[1]This organization reflects a government partnership amongst Canadian provinces and is proportionally consolidated based upon the province's share (14.9%) of the total provincial contributions to the partnership.
[2]Health Facilities Association was wound up on March 31, 2001. All assets have been transferred to the province.
[3]This company owns shares in Skeena Cellulose Inc and was previously recorded on a modified equity basis.
[4]This company has sold its investments and no longer has any financial interest in Western Star Trucks Holdings Ltd.
[5]This company provides funding to the Vancouver Trade and Convention Centre Authority that, in turn, constructs the Vancouver Trade and Convention Centre.
[6]This organization was established during the current year.
[7]British Columbia Systems Corporation ceased operations on April 30, 2000. All assets have been transferred to the province.

Summary Financial Statements
Balance Sheet by Sector
as at March 31, 2001

In Millions

Assets	CRF[1]	Health	Education	Natural Resources	Transpor-tation	Social Services	Other	Adjust-ments[2]	Total
	$	$	$	$	$	$	$	$	$
Cash and temporary investments	(57)	40	4	500	32	25	18	(8)	554
Warehouse Program investments	1,312								1,312
Accounts receivable	2,818	2		53	15	8	35	(129)	2,802
Inventories	163	12		48	83			(1)	305
Due from the Province of British Columbia		10		87	25	4	2	(128)	
Due from other governments	172			2	42	12	1		229
Due from self-supported Crown corporations and agencies	422							0	422
Equity in self-supported Crown corporations and agencies	760							2,241	3,001
Loans, advances and mortgages receivable	388			86	1	98		1	574
Other investments	150			90		12			252
Loans for purchase of assets, recoverable from agencies	10,655							(3,218)	7,437
Other assets	259	4		6	59	10	1		339
Prepaid capital advances	8,744							(1,839)	6,905
Tangible capital assets	603	26	1	317	8,811	375	853	(1)	10,985
	26,389	**94**	**5**	**1,189**	**9,068**	**544**	**910**	**(3,082)**	**35,117**

Summary Financial Statements
Balance Sheet by Sector
as at March 31, 2001—Continued

In Millions

Liabilities and Net Equity	CRF[1]	Health	Education	Natural Resources	Transpor-tation	Social Services	Other	Adjust-ments[2]	Total
	$	$	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	2,659	17	2	118	307	49	68	(101)	3,119
Due to other governments	81			18	5				104
Due to Crown corporations, agencies and funds	152	1		2		4		(88)	71
Due to the Province of British Columbia		6		73	5			(84)	
Deferred revenue	414	24		15	1,860	106	18	(1,857)	580
Unfunded pension liabilities	1,477								1,477
Taxpayer-supported debt	24,249	4		303	2,407	265	607	(3,216)	24,619
Self-supported debt	8,619								8,619
	37,651	52	2	529	4,584	424	693	(5,346)	38,589
Net equity (deficiency)	(11,262)	42	3	660	4,484	120	217	2,264	(3,472)
	26,389	**94**	**5**	**1,189**	**9,068**	**544**	**910**	**(3,082)**	**35,117**

[1] Consolidated Revenue Fund.

[2] Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

Summary Financial Statements
Statement of Operations by Sector
for the Fiscal Year Ended March 31, 2001

In Millions

	CRF[1]	Health	Education	Natural Resources	Transpor-tation	Social Services	Other	Adjust-ments[2]	Total
Revenue	$	$	$	$	$	$	$	$	$
Taxation	13,933			24	283		61	14	14,315
Natural resources	3,975			187				19	4,181
Fees and licences	1,544		1	50	413			17	2,025
Investment earnings	112	2		70	2	6	2	100	294
Miscellaneous	205	23		384	97	35	126	7	877
Contributions from the provincial government/self-supported Crown corporations and agencies	1,500	195	75	129	70	117	444	(805)	1,725
Contributions from the federal government	2,797			9	22	79	5		2,912
Recoveries								1,510	1,510
Total revenue	24,066	220	76	853	887	237	638	862	27,839
Expense									
Grants and contributions	18,024	1	4	138		128	12	(532)	17,775
Salaries and benefits	1,763	52	7	136	342	21	123	(8)	2,436
Operating costs	1,949	89	4	504	245	46	355	(741)	2,451
Amortization	125	3		21	322	6	46	(2)	521
Interest	889			25	118	13	39	789	1,873
Other	2,323	58	60	68	45	20	16	(1,357)	1,233
Recoveries	(2,610)							2,610	
Operating expense	22,463	203	75	892	1,072	234	591	759	26,289
Loss on pension settlement	52								52
Surplus (deficit) for the year 2000/01	**1,551**	**17**	**1**	**(39)**	**(185)**	**3**	**47**	**103**	**1,498**
Surplus (deficit) for the year 1999/00	**(366)**	**25**	**0**	**11**	**(492)**	**(4)**	**51**	**815**	**40**

[1] Consolidated Revenue Fund.

[2] Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

Summary Financial Statements
Statement of Self–Supported Crown Corporations and Agencies
Summary of Financial Position
as at March 31, 2001

In Millions

	Utility	Insurance	Liquor	Transpor–tation	Finance	Natural Resources	2001 Total	2000 Total
Assets	$	$	$	$	$	$	$	$
Cash and temporary investments	688	5,354	15	19	81	3	6,160	5,769
Accounts receivable	349	134	7	89	36		615	807
Inventories	81		59	32			172	237
Long–term investments	326	204					530	194
Tangible capital assets	9,443	146	28	1,110	21	12	10,760	10,912
Other assets	945	71	2	122	10		1,150	895
	11,832	**5,909**	**111**	**1,372**	**148**	**15**	**19,387**	**18,814**
Liabilities								
Accounts payable and accrued liabilities	1,512	4,169	108	200	102		6,091	5,335
Deferred revenue	998	1,259		24		1	2,282	2,328
Due to the Province of British Columbia	375		1		46		422	417
Long–term debt due to the Province of British Columbia	6,724			593			7,317	7,391
Other long–term debt	243		2	29			274	601
	9,852	5,428	111	846	148	1	16,386	16,072
Equity								
Investment by the Consolidated Revenue Fund	276			258			534	510
Unremitted earnings—end of year	1,704	481		268		14	2,467	2,232
	1,980	481		526		14	3,001	2,742
Total liabilities and equity	**11,832**	**5,909**	**111**	**1,372**	**148**	**15**	**19,387**	**18,814**

Summary Financial Statements
Statement of Self-Supported Crown Corporations and Agencies
Summary of Results of Operations and Statement of Equity
for the Fiscal Year Ended March 31, 2001

In Millions

	Utility[1]	Insurance[2]	Liquor[3]	Transportation[4]	Finance[5]	Natural Resources[6]	2001 Total	2000 Total
	$	$	$	$	$	$	$	$
Revenue	7,903	2,653	1,732	496	1,489	4	14,277	10,380
Expense	7,350	2,667	1,090	502	939	4	12,552	9,085
Net earnings of self-supported Crown corporations and agencies	553	(14)	642	(6)	550		1,725	1,295
Contributions paid to the Consolidated Revenue Fund	(375)		(642)		(414)		(1,431)	(1,376)
Adjustments to contributions[7]					(136)		(136)	(109)
Increase in unremitted earnings in self-supported Crown corporations and agencies	178	(14)		(6)			158	(190)
Unremitted earnings—beginning of year	1,526	475		274		(43)	2,232	2,425
Adjustment to unremitted earnings[8]		20					20	(3)
Transfer to consolidated entity[9]						57	57	
Unremitted earnings—end of year	1,704	481		268		14	2,467	2,232
Investment by the Consolidated Revenue Fund	276			258			534	510
Equity in self-supported Crown corporations and agencies for the year	**1,980**	**481**	**0**	**526**	**0**	**14**	**3,001**	**2,742**

[1]Utility—British Columbia Hydro and Power Authority and Columbia Power Corporation.

[2]Insurance—Insurance Corporation of British Columbia (ICBC).

[3]Liquor—British Columbia Liquor Distribution Branch.

[4]Transportation—British Columbia Railway Company.

[5]Finance—British Columbia Lottery Corporation and BCIF Management Ltd.

[6]Natural Resources—Provincial Capital Commission.

[7]These adjustments are for a number of different items: (a) a $4 million (2000: $2 million) payment to the Consolidated Revenue Fund (CRF) to pay for the Problem Gambling Program which is shown as a recovery by the CRF; (b) $96 million (2000: $86 million) paid to the CRF that was then transferred to the B.C. Society for the Distribution of Gaming Revenue to Charities; (c) a $35 million (2000: $20 million) payment to the Gaming Policy Secretariat which is shown as a recovery by the CRF; (d) a $1 million (2000: $1million) payment to BC Gaming Commission which is shown as a recovery by the CRF.

[8]The 2001 adjustment is to record the earnings of ICBC for the period January 1 to March 31, 1999, which has not been recorded due to the change made last year to use the April 1 to March 31 earnings of ICBC when preparing the Summary Financial Statements. The 2000 adjustment relates to a prior period adjustment by British Columbia Railway Company for employee accrued vacation benefits.

[9]552513 British Columbia Ltd. no longer meets the criteria of a self-supported Crown corporation and is no longer consolidated using the modified equity basis. It is fully consolidated in the 2000/01 Summary Financial Statements.

Summary Financial Statements
Statement of Tangible Capital Assets[1,2]
for the Fiscal Year Ended March 31, 2001

In Millions

	Land	Buildings	Highway Infra–structure	Ferries	Transportation Equipment	Computer Hardware /Software	Other[4]	2001 Total	2000 Total
Historical Cost[3]	$	$	$	$	$	$	$	$	$
Opening cost	600	1,902	9,041	1,275	1,986	671	393	15,868	15,023
Inclusion of Crown corporation previously excluded[5]		12	35				78	125	
Additions	58	73	500	34	335	142	92	1,234	1,267
Disposals and valuation adjustments	(5)	(26)	(2)	(47)	(1)	(90)	(54)	(225)	(422)
	653	1,961	9,574	1,262	2,320	723	509	17,002	15,868
Accumulated Amortization									
Opening balance		779	3,169	655	373	404	244	5,624	5,217
Inclusion of Crown corporation previously excluded[5]		1	9				12	22	
Amortization expense		68	262	39	16	94	42	521	492
Effects of disposals and valuation adjustments		(19)	(9)	(20)	(1)	(54)	(47)	(150)	(85)
		829	3,431	674	388	444	251	6,017	5,624
Net book value	**653**	**1,132**	**6,143**	**588**	**1,932**	**279**	**258**	**10,985**	**10,244**

[1] This statement includes assets that are held on capital leases at March 31, 2001, at a net book value totalling $28 million (2000: $22 million) which is comprised of: buildings $6 million (2000: nil); ferries $21million (2000: $21 million); computer hardware/software nil (2000: $1 million); and heavy equipment $1 million (2000: nil).

[2] Included in tangible assets are capital assets of BC Transit consisting of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express utilized within the related TransLink system. These assets are subject to a lease arrangement which is expected to be completed during 2001/02 with Greater Vancouver Transportation Authority. The net book value of these assets is $993 million (2000: $1,003 million).

[3] Historical cost includes work–in–progress at March 31, 2001, totalling $1,296 million (2000: $916 million) which is comprised of: buildings $29 million (2000: $53 million); highway infrastructure $379 million (2000: $263 million); ferries nil (2000: $23 million); transportation equipment $827 million (2000: $518 million); computer hardware/software $58 million (2000: $55 million); and, specialized equipment $3 million (2000: $4 million).

[4] In 2001/01 the Consolidated Revenue Fund added office furniture and equipment to the existing tangible asset classes. *See* Note 24 Net Equity (Deficiency) for information relating to the impact of this change on prior years.

[5] 552513 British Columbia Ltd. is fully consolidated for the first time in fiscal 2000/01; previously it had been consolidated on the modified equity basis.

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2001

Guaranteed debt represents that debt of municipalities and other governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions.

	In Millions	
	2001	2000
Taxpayer–supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Municipalities and other local governments:		
Municipal Act debentures	2	2
Subtotal, municipalities and other local governments	2	2
Government Services:		
Homeowner Protection Act loan guarantees	56	24
Subtotal, government services	56	24
Health and education:		
Financial Administration Act student aid loans[2]	159	267
Subtotal, health and education	159	267
Economic development:		
Build BC Act debentures		6
Securities Act	2	1
Financial Administration Act:		
District of Tumbler Ridge		3
Farm Distress Operating Loan Program	4	
Feeder Association's Loan Guarantee Program	5	1
Forest Renewal BC	19	26
Skeena Cellulose Inc	36	
Miscellaneous guarantees each less than $1 million	1	2
Home Mortgage Assistance Program Act mortgages	20	24
Home Mortgage Assistance Program Act second mortgages[3]	3	4
Subtotal, economic development	90	67
Total taxpayer–supported guaranteed debt	307	360

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2001—Continued

Self–supported Guaranteed Debt	2001 Net Outstanding[1] $	2000 Net Outstanding[1] $
Economic development:		
British Columbia Railway Finance Act capital leases[4]	5	7
Financial Administration Act:		
Skeena Cellulose Inc[4]		156
Subtotal, economic development	5	163
Utilities:		
Hydro and Power Authority Act bonds and debentures[4]	149	192
Subtotal, utilities	149	192
Total self–supported guaranteed debt	154	355
Grand total, all guaranteed debt	461	715
Provision for probable payout	(14)	(17)
Net total, all guaranteed debt[5,6]	**447**	**698**

[1]Guaranteed debt includes gross principal debt less sinking fund balances, and represents the total amount of contingent liability of the government arising from relevant guarantees. Amounts payable in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the fiscal year–end.

[2]The government enters into risk sharing agreements with the lending institutions that provide student loans whereby the province guarantees the repayment of specific unpaid student loans under certain circumstances. Lending institutions are required to provide claims evidencing that strict criteria have been met prior to the government providing payment.

[3]The British Columbia Second Mortgage Program was sold to the Bank of Montreal in June 1989, with the condition that the province will buy back any mortgages which may become uncollectible in future years.

[4]*See* the financial statements of Crown corporations and agencies for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown agencies and for details of derivative financial products.

[5]The government has unconditionally guaranteed the payment of principal and interest for nil (2000: $79 million) of debenture issued to the Canada Pension Plan Investment Fund.

[6]Debentures totalling $0.1 million (2000: nil) have been defeased and are considered extinguished for financial reporting purposes.

appendix b

Office of the Auditor General: 2001/02 Reports Issued to Date

Report 1

Managing Interface Fire Risks

Report 2

Transportation in Greater Vancouver:
A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure

Report 3

Building Better Reports:
Public Performance Reporting Practices in British Columbia